中策集團有限公司

China Strategic Holdings Limited

(Incorporated in Hong Kong with limited liability)

(Stock Code: 235)

Annual Report

2016

Contents

Abbreviations

In this annual report, the following abbreviations have the following meanings unless otherwise specified:

“Board”	Board of Directors of the Company
“Company”	China Strategic Holdings Limited
“Hong Kong Companies Ordinance”	Companies Ordinance (Chapter 622 of the Laws of Hong Kong)
“Directors”	directors of the Company
“Group”	the Company and its subsidiaries
“Listing Rules”	Rules Governing the Listing of Securities on the Stock Exchange
“PRC”	People’s Republic of China
“RMB”	Renminbi
“SFO”	Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“HK$” and “HK cents”	Hong Kong dollars and cents
“US$”	United States dollars
“%”	per cent.

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Dr. Or Ching Fai
(Chairman and Chief Executive Officer)
Mr. Sue Ka Lok
Ms. Lee Chun Yeung, Catherine
Mr. Chow Kam Wah

Independent Non-executive Directors

Ms. Ma Yin Fan
Mr. Chow Yu Chun, Alexander
Mr. Leung Hoi Ying

AUDIT COMMITTEE

Ms. Ma Yin Fan *(Chairman)*
Mr. Chow Yu Chun, Alexander
Mr. Leung Hoi Ying

REMUNERATION COMMITTEE

Mr. Chow Yu Chun, Alexander *(Chairman)*
Ms. Ma Yin Fan
Mr. Leung Hoi Ying

NOMINATION COMMITTEE

Dr. Or Ching Fai *(Chairman)*
Ms. Ma Yin Fan
Mr. Leung Hoi Ying

EXECUTIVE COMMITTEE

Dr. Or Ching Fai *(Chairman)*
Mr. Sue Ka Lok
Ms. Lee Chun Yeung, Catherine
Mr. Chow Kam Wah

INVESTMENT & CREDIT COMMITTEE

Dr. Or Ching Fai *(Chairman)*
Mr. Sue Ka Lok
Mr. Chow Kam Wah

COMPANY SECRETARY

Mr. Sue Ka Lok

REGISTERED OFFICE

Rooms 3206–3210, 32nd Floor,
China Resources Building
26 Harbour Road
Wanchai, Hong Kong

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
Hang Seng Bank Limited
Bank of Communications Co., Ltd., Hong Kong Branch
BNP Paribas Hong Kong Branch

LEGAL ADVISERS

Reed Smith Richards Butler
Stevenson, Wong & Co.

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants

SHARE REGISTRAR AND TRANSFER OFFICE

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

TRADING OF SHARES

Hong Kong Stock Exchange
(Stock Code: 235)

WEBSITE

http://www.cshldgs.com

Chairman's Statement

On behalf of the Board, I hereby present to the shareholders the results of the Group for the year ended 31 December 2016.

RESULTS

For the year under review, the Group continued to principally engage in the business of investment in securities, trading of metal minerals and products as well as money lending. In February 2016, the Group successfully completed the acquisition of a securities brokerage company and has horizontally expanded its financial services business now comprising money lending and securities brokerage service.

For the year under review, the Group reported revenue of HK$270,706,000, increased by 13% from last year (2015: HK$239,466,000), and gross profit of HK$189,652,000, rose by 4.6 times as compared to the previous year (2015: HK$33,592,000). The increases in the Group's revenue and gross profit were mainly due to the increase in interest income generated by the Group's money lending business and debt securities investments.

The Group reported a loss for the year ended 31 December 2016 as compared with the profit recorded for the year ended 31 December 2015 by recording loss attributable to owners of the Company of HK$436,870,000 (2015: profit of HK$584,148,000) and basic loss per share of HK2.57 cents (2015: basic earnings per share of HK5.02 cents). The loss reported by the Group was mainly attributed to the substantial net loss on financial assets measured at fair value through profit or loss of HK$635,753,000 (2015: net gain of HK$665,601,000) incurred by the Group's securities investment operation, despite there was a 5.1 times increase in profit reaching HK$87,971,000 (2015: HK$14,436,000) contributed by the Group's money lending business.

In December 2016, the Company issued 2-year notes with aggregate principal amount of HK$1,500,000,000 bearing interest at 7% and 8% per annum for the first and second year respectively. The Board is of the view that the new fund raised could strengthen the Group's financial capability to further develop its existing businesses and to pursue investment opportunities with good prospects.

PROSPECTS

The business environment was challenging throughout 2016 and 2017 is likely to be full of uncertainties. The market concerns of the slowdown of the China economy, the instabilities in the European economy followed by the United Kingdom's referendum on Brexit and the pace of interest rate increase in the United States have not helped the outlook of the global financial and investment markets. The stock market was volatile in 2016 and management has taken a more cautious approach in managing the Group's securities investments portfolio. As for the money lending business, the Group will continue to develop this business under prudent credit management and believe that this business will continue to contribute a stable and favorable income stream to the Group in future years. As for the Group's trading business, the management will step up its effort in exploring new business opportunities in order to improve its financial performance. Following completion of the acquisition of a securities brokerage company in February 2016, the Group has taken a further step to diversify its financial services business and tap into the vast business opportunities of Hong Kong financial markets. The newly acquired securities brokerage business is expected to create synergy benefits with the Group's existing business in securities investment and money lending, it is also the Group's plan that additional financial resources will be devoted to develop this business and other related financial services with the view that it will become a principal business of the Group in future.

APPRECIATION

On behalf of the Board, I would like to take this opportunity to thank all shareholders, investors, bankers, business associates and customers for their continuing support to the Group, and to my fellow directors and all staff members for their contributions and hard work during the past year.

Dr. Or Ching Fai
Chairman

Hong Kong, 23 March 2017

Management Discussion and Analysis

BUSINESS REVIEW

For the year ended 31 December 2016, the Group continued to principally engage in the business of investment in securities, trading as well as money lending. In February 2016, the Group successfully completed the acquisition of a securities brokerage company and has horizontally expanded its financial services business now comprising money lending and securities brokerage service.

For the year under review, the Group's revenue increased by 13% to HK$270,706,000 (2015: HK$239,466,000) and the Group's gross profit increased by 4.6 times to HK$189,652,000 (2015: HK$33,592,000). The increases in the Group's revenue and gross profit were mainly due to the increase in interest income generated by the Group's money lending business and debt securities investments.

Investment in Securities

The Group generally acquires securities listed on the Stock Exchange or other recognised stock exchanges and over-the-counter markets with good liquidity that can facilitate swift execution of securities transactions. For making investment or divestment decision on securities of individual target company, references will usually be made to the latest financial information, news and announcements issued by the target company, investment analysis reports that the Company has access to, as well as industry or macro-economic news. When deciding on acquiring securities to be held for long-term purpose, particular emphasis will be placed on the past financial performance of the target company including its sales and profit growth, financial healthiness, dividend policy, business prospect, industry and macro-economic outlook. When deciding on acquiring securities to be held other than for long-term purpose, in addition to the factors mentioned, references will also be made to prevailing market sentiments on different sectors of the investment markets. In terms of return, for long-term securities investments, the Company mainly emphasises on return of investment in form of capital appreciation and dividend/interest income. For securities investments other than for long-term holding, the Company mainly emphasises on return of investment in form of trading gains.

At 31 December 2016, the Group's investment in securities operation held a securities investments portfolio valued at HK$744,407,000 (2015: HK$1,713,832,000), comprising listed equity securities in Hong Kong and unlisted convertible and debt securities, and a long-term available-for-sale investments portfolio valued at HK$922,917,000 (2015: HK$846,820,000), comprising unlisted and listed debt securities and listed equity securities in Hong Kong. As a whole, the operation recorded a revenue of HK$89,844,000 (2015: HK$14,768,000) and a loss of HK$549,495,000 (2015: profit of HK$720,121,000).

Financial assets at fair value through profit or loss ("FVTPL")

At 31 December 2016, the Group held a securities investments portfolio comprising financial assets at FVTPL amounting to HK$744,407,000 (2015: HK$1,713,832,000) which was measured at market/fair value. During the year under review, the Group's financial assets at FVTPL portfolio generated a revenue of HK$15,762,000 (2015: HK$8,395,000) representing dividends from equity securities of HK$13,015,000 (2015: HK$8,395,000) and interest income from unlisted convertible and debt securities of HK$2,747,000 (2015: nil). The Group recognised a net loss on financial assets at FVTPL of HK$635,753,000, which comprised net unrealised loss and net realised loss of HK$152,083,000 and HK$483,670,000 respectively (2015: net gain on financial assets at FVTPL of HK$665,601,000, which comprised net unrealised gain and net realised gain of HK$623,319,000 and HK$42,282,000 respectively). Such substantial loss from investments in financial assets at FVTPL was due primarily to the reversal of unrealised gains recognized for certain securities during the year ended 31 December 2015 and the volatile Hong Kong stock market conditions during the year.

At 31 December 2016, the Group invested in different category of companies and their weightings to the market/fair value of the Group's financial assets at FVTPL portfolio of HK$744,407,000 were as below:

Category of companies	**Approximate weighting to the market/fair value of the Group's financial assets at FVTPL portfolio** **%**
Banking company	1.47
Conglomerate company	20.37
Entertainment and media company	28.24
Healthcare services company	5.45
Industrial materials company	2.38
Infrastructure company	19.00
Mining and resources company	4.68
Property company	5.40
Others	13.01
	100.00

Management Discussion and Analysis

At 31 December 2016, the weightings of the Group's top five investments to the market/fair value of the Group's financial assets at FVTPL portfolio of HK$744,407,000 (together with other information) were as below:

Company name	Approximate weighting to the market/ fair value of the Group's financial assets at FVTPL portfolio %	% of shareholding interest %	Acquisition cost HK$'000	*Acquisition cost during the year/ carrying amount as at 1 January 2016 HK$'000	Market/fair value as at 31 December 2016 HK$'000	Accumulated unrealised gain (loss) recognised up to 31 December 2016 HK$'000	Unrealised gain (loss) recognised during the year ended 31 December 2016 HK$'000
			A	B	C	D = C - A	E = C - B
Evergrande Health Industry Group Limited (stock code: 708)	24.80	1.45	99,533	291,392	184,632	85,099	(106,760)
The Cross-Harbour (Holdings) Limited (stock code: 32)	19.00	3.39	77,377	130,816	141,422	64,045	10,606
Master Glory Group Limited (stock code: 275)	13.37	4.89	100,800	83,720	99,540	(1,260)	15,820
China Ruifeng Renewable Energy Holdings Limited (stock code: 527)	9.31	–	49,400	49,400	69,334	19,934	19,934
Dragonite International Limited (stock code: 329)	5.45	2.26	5,280	24,000	40,560	35,280	16,560
Others	28.07	–	377,621	317,162	208,919	(168,702)	(108,243)
	100.00		710,011	896,490	744,407	34,396	(152,083)

* The amount represented the acquisition cost for the securities during the year ended 31 December 2016 and/or the carrying amount of the securities brought forward from the prior financial year after accounting for additional acquisition and/or disposal of the securities (if any) during the current financial year.

The tables below set out (i) unrealised gain (loss) recognised for the year ended 31 December 2016 for the financial assets at FVTPL held by the Group as at 31 December 2016 together with information on financial performance of the investee companies and their future prospects; and (ii) realised gain (loss) on financial assets at FVTPL disposed of during the year ended 31 December 2016. The Group is committed to closely monitor the financial performance of its financial assets at FVTPL portfolio through making investment and divestment decisions on individual securities from time to time based on, amongst others, internal assessments on individual securities and publicly available information of investee companies.

(i) Unrealised gain (loss) recognised for the year ended 31 December 2016 for the financial assets at FVTPL held by the Group as at 31 December 2016 together with information on financial performance of the investee companies and their future prospects

Industry	Abbreviation of investee company	# Principal activities of investee company	* Acquisition cost during the year/ carrying amount as at 1 January 2016 *HK$'000*	% of shareholding interest *%*	Market/fair value as at 31 December 2016 *HK$'000*	% to total market/ fair value of the Group's financial assets at FVTPL portfolio *%*	Unrealised gain (loss) recognised during the year ended 31 December 2016 *HK$'000*	# Investee company's financial performance	# Future prospects of the investee company
Equity securities listed in Hong Kong									
Banking company	**A**	Banking business	10,135	negligible	10,936	1.47	801	For the year ended 31 December 2016, interest income, as its major source of revenue, decreased by 10% to US$42,414,000,000 and profit for the year decreased by 77% to US$3,446,000,000 as compared to 2015.	The investee company upgrades its forecast for global economic growth, though it remains slightly lower than the long-term trend. With a strong capital position and conservative balance sheet after the completion of restructuring in 2017, the investee company expects to gain market shares in areas of importance to it.
			10,135		**10,936**	**1.47**	**801**		
Conglomerate company	**B**	Manufacturing and trading of hard and stuffed toys and securities investments	61,480	3.55	20,882	2.80	(40,598)	For the year ended 31 December 2016, revenue decreased by 5% to HK$236,174,000 and loss for the year increased by 71% to HK$227,296,000 as compared to 2015.	The investee company further enlarges its exposure in the medical and health industry and expects to allocate more resources to investment and development of potential and newly acquired projects in this industry.

(i) **Unrealised gain (loss) recognised for the year ended 31 December 2016 for the financial assets at FVTPL held by the Group as at 31 December 2016 together with information on financial performance of the investee companies and their future prospects (continued)**

Industry	Abbreviation of investee company	# Principal activities of investee company	* Acquisition cost during the year/ carrying amount as at 1 January 2016 HK$'000	% of shareholding interest %	Market/fair value as at 31 December 2016 HK$'000	% to total market/ fair value of the Group's financial assets at FVTPL portfolio %	Unrealised gain (loss) recognised during the year ended 31 December 2016 HK$'000	# Investee company's financial performance	# Future prospects of the investee company
	C+	Trading of securities, industrial water supply business, property development and trading and other strategic investments	83,720	4.89	99,540	13.37	15,820	For the six months ended 30 September 2016, revenue increased by 114% to HK$25,380,000 while its results experienced a turnaround and recorded a profit for the period of HK$1,456,824,000 as compared to the same period in 2015.	The investee company obtained the pre-sale permit of its flagship project and acquired property interests in two shopping plaza, with the aim to enlarge its investment property portfolio and secure recurring stable rental income.
	D	Treasury management and property and infrastructure investment	11,395	0.95	13,074	1.76	1,679	For the year ended 31 December 2016, revenue decreased by 14% to HK$30,114,000 and profit for the year decreased by 86% to HK$21,848,000 as compared to 2015.	The investee company continues to maintain its long sustained strategy to focus on property investment and treasury management business and gradually diversifies its business into property leasing business to earn rental income.
	E	Financing guarantee services and consultancy services in the logistic industry in the PRC, trading of furniture and fixtures and interior decoration works in Hong Kong and Macau	22,669	3.38	18,135	2.44	(4,534)	For the six months ended 30 September 2016, revenue decreased by 30% to HK$87,545,000 and profit for the period decreased by 97% to HK$7,038,000 as compared to the same period in 2015.	The investee company continues its strategic geographical focus and becomes a comprehensive financing solutions provider for the small and medium-sized enterprises in the PRC.
			179,264		**151,631**	**20.37**	**(27,633)**		

(i) Unrealised gain (loss) recognised for the year ended 31 December 2016 for the financial assets at FVTPL held by the Group as at 31 December 2016 together with information on financial performance of the investee companies and their future prospects (continued)

Industry	Abbreviation of investee company	# Principal activities of investee company	* Acquisition cost during the year/ carrying amount as at 1 January 2016 *HK$'000*	% of shareholding interest %	Market/fair value as at 31 December 2016 *HK$'000*	% to total market/ fair value of the Group's financial assets at FVTPL portfolio %	Unrealised gain (loss) recognised during the year ended 31 December 2016 *HK$'000*	# Investee company's financial performance	# Future prospects of the investee company
Entertainment and media company	**F+**	Books and magazine publishing, digital business, copyright holding and licensing business, and provision of plastic surgery, anti-aging and other health services	291,392	1.45	184,632	24.80	(106,760)	For the year ended 31 December 2016, revenue decreased by 17% to HK$528,132,000 and profit for the year decreased by 39% to HK$58,553,000 as compared to 2015.	The investee company continues to streamline its publishing business and reallocate resources to its media segment building on a digital platform. It also continuously develop its medical service business in developing modern high-end international hospitals, community medical treatment and elderly care, as well as medical cosmetology and anti-aging services.
	G	Film and TV programme production and investment, cinema operation, event production and investment, music production and others, and investment in securities	36,608	4.13	25,626	3.44	(10,982)	For six months ended 31 December 2016, revenue increased by 149% to HK$33,742,000 and loss for the period from continuing operations decreased by 53% to HK$17,618,000 as compared to the same period in 2015.	The investee company expects film investment and TV programme production continue to be the major source of revenue. It further dedicated effort in expanding cinema operation business and expects the new operation will not only bring in new income stream and stable return but also a platform for films exhibition.
			328,000		**210,258**	**28.24**	**(117,742)**		

(i) Unrealised gain (loss) recognised for the year ended 31 December 2016 for the financial assets at FVTPL held by the Group as at 31 December 2016 together with information on financial performance of the investee companies and their future prospects (continued)

Industry	Abbreviation of investee company	# Principal activities of investee company	* Acquisition cost during the year/ carrying amount as at 1 January 2016 *HK$'000*	% of shareholding interest %	Market/fair value as at 31 December 2016 *HK$'000*	% to total market/ fair value of the Group's financial assets at FVTPL portfolio %	Unrealised gain (loss) recognised during the year ended 31 December 2016 *HK$'000*	# Investee company's financial performance	# Future prospects of the investee company
Healthcare services company	H+	Production and sales of a series of health care products, pharmaceutical products, securities trading and investments, money lending and wine trading	24,000	2.26	40,560	5.45	16,560	For the year ended 31 December 2016, revenue increased by 72% to HK$2,816,000, while its results experienced a turnaround and recorded a loss for the year of HK$449,897,000 as compared to 2015.	The investee company is appraising some healthcare, life-science and education projects and will develop some core businesses in fund management as well as in cross-border direct investment and in particular the fixed income investment in various business sectors.
			24,000		**40,560**	**5.45**	**16,560**		
Industrial materials company	I	Investment and trading of securities, provision for finance, property investment and manufacturing and sales of accessories for photographic products	26,347	0.06	17,716	2.38	(8,631)	For the year ended 31 December 2016, revenue of HK$132,503,000 and profit for the year of HK$5,365,000 were recorded.	The investee company continues to ally with a global real estate leader and a global internet giant to build an "one-stop" community services platform which offers property owners with one-stop intelligent life experience covering clothing, food, accommodation, transportation and entertainment at lower cost but improved efficiency.
			26,347		**17,716**	**2.38**	**(8,631)**		

(i) Unrealised gain (loss) recognised for the year ended 31 December 2016 for the financial assets at FVTPL held by the Group as at 31 December 2016 together with information on financial performance of the investee companies and their future prospects (continued)

Industry	Abbreviation of investee company	# Principal activities of investee company	* Acquisition cost during the year/ carrying amount as at 1 January 2016 *HK$'000*	% of shareholding interest %	Market/fair value as at 31 December 2016 *HK$'000*	% to total market/ fair value of the Group's financial assets at FVTPL portfolio %	Unrealised gain (loss) recognised during the year ended 31 December 2016 *HK$'000*	# Investee company's financial performance	# Future prospects of the investee company
Infrastructure company	J+	Operation of motoring schools, tunnels and an electronic toll collection system, and investment	130,816	3.39	141,422	19.00	10,606	For the year ended 31 December 2016, revenue increased by 8% to HK$431,005,000 while profit for the year decreased by 31% to HK$455,563,000 as compared to 2015.	Reported increase in revenue for the year ended 31 December 2016 and continued to offer stable dividend payout. The investee company will continue with its existing principal businesses.
			130,816		**141,422**	**19.00**	**10,606**		
Mining and resources company	K	Acquisition, exploration, development and mining of copper and other mineral resources; property investment and investments in financial instruments	52,817	1.50	34,824	4.68	(17,993)	For the six months ended 30 September 2016, revenue decreased by 57% to US$16,804,000 while its results experienced a turnaround and recorded a loss for the period of US$81,733,000 as compared to the same period in 2015.	The investee company completed its strategic transformation to an integrated company covering both e-logistics and mining businesses and it further diversified its business into money lending business during 2016.
			52,817		**34,824**	**4.68**	**(17,993)**		

Management Discussion and Analysis

(i) Unrealised gain (loss) recognised for the year ended 31 December 2016 for the financial assets at FVTPL held by the Group as at 31 December 2016 together with information on financial performance of the investee companies and their future prospects (continued)

Industry	Abbreviation of investee company	# Principal activities of investee company	* Acquisition cost during the year/ carrying amount as at 1 January 2016 *HK$'000*	% of shareholding interest %	Market/fair value as at 31 December 2016 *HK$'000*	% to total market/ fair value of the Group's financial assets at FVTPL portfolio %	Unrealised gain (loss) recognised during the year ended 31 December 2016 *HK$'000*	# Investee company's financial performance	# Future prospects of the investee company
Property company	L	Development, lease and management of shopping mall and agriculture business	42,647	0.27	23,574	3.17	(19,073)	For the year ended 31 December 2016, revenue increased by 159% to RMB1,001,765,000 while loss for the year increased by 222% to RMB14,601,628,000 as compared to 2015.	After substantial disposal of the underground shopping malls, the investee company presently focuses on the operation of agriculture wholesale markets in China.
	Others	–	17,984	N/A	16,599	2.23	(1,385)	–	–
			60,631		**40,173**	**5.40**	**(20,458)**		
Others	**-**	–	25,080	4.90	17,820	2.39	(7,260)	–	–
			25,080		**17,820**	**2.39**	**(7,260)**		
Unlisted debt securities									
Others	**M**	Provision of financial products and services and is engaged in life insurance, property and casualty insurance, trust, securities, banking and other businesses	10,000	-	9,733	1.31	(267)	For the year ended 31 December 2016, gross written premium, as its major source of revenue, increased by 22% to RMB469,555,000,000 and profit for the year increased by 11% to RMB72,368,000,000 as compared to 2015.	The investee company adheres to the integrated financial model of "one customer, multiple products and one-stop services" in order to offer greater value for customers and become "a world-leading personal financial services provider".

(i) **Unrealised gain (loss) recognised for the year ended 31 December 2016 for the financial assets at FVTPL held by the Group as at 31 December 2016 together with information on financial performance of the investee companies and their future prospects (continued)**

Industry	Abbreviation of investee company	# Principal activities of investee company	* Acquisition cost during the year/ carrying amount as at 1 January 2016 *HK$'000*	% of shareholding interest %	Market/fair value as at 31 December 2016 *HK$'000*	% to total market/ fair value of the Group's financial assets at FVTPL portfolio %	Unrealised gain (loss) recognised during the year ended 31 December 2016 *HK$'000*	# Investee company's financial performance	# Future prospects of the investee company
Unlisted convertible securities									
Others	N+	Wind power generation, and wind turbine blades manufacturing	49,400	-	69,334	9.31	19,934	For the year ended 31 December 2016, revenue from continuing operations increased by 17% to RMB369,150,000 and loss for the year from continuing operations decreased by 76% to RMB11,205,000 as compared to 2015.	Along with the support from the PRC "13th Five-year Plan" on the development of renewable energies, the investee company will speed up the business development by way of cooperative development and acquisition, with the aim of becoming a renewable energy supplier and integrated service provider.
			59,400		**79,067**	**10.62**	**19,667**		
			896,490		**744,407**	**100.00**	**(152,083)**		

\+ In the table above, investee company C, F, H, J and N stands for Master Glory Group Limited (stock code: 275), Evergrande Health Industry Group Limited (stock code: 708), Dragonite International Limited (stock code: 329), The Cross-Harbour (Holdings) Limited (stock code: 32) and China Ruifeng Renewable Energy Holdings Limited (stock code: 527) respectively.

\# Extracted from published financial information of the investee companies.

* The amount represented the acquisition cost for the securities during the year ended 31 December 2016 and/or the carrying amount of the securities brought forward from the prior financial year after accounting for additional acquisition and/or disposal of the securities (if any) during the current financial year.

(ii) Realised gain (loss) on financial assets at FVTPL disposed of during the year ended 31 December 2016

Industry	Abbreviation of investee company	# Principal activities of investee company	*Acquisition cost during the year/carrying amount as at 1 January 2016 HK$'000	Sale proceeds of financial assets at FVTPL sold during the year ended 31 December 2016 HK$'000	Realised gain (loss) recognised during the year ended 31 December 2016 HK$'000
Equity securities listed in Hong Kong					
Conglomerate company	E	Financing guarantee services and consultancy services in the logistic industry in the PRC, trading of furniture and fixtures and interior decoration works in Hong Kong and Macau	9,956	7,766	(2,190)
	O	Development and promotion of education software products and provision of technical support services in the PRC, sale of apparel in the PRC and securities trading and investments business	210,000	45,675	(164,325)
	P	Share investment, trading of fur garment and clean energy operation	38,400	16,000	(22,400)
			258,356	**69,441**	**(188,915)**
Financial services and investment company	Q	Financial leasing, investments in securities and money lending	636,295	275,983	(360,312)
	Others	–	303	336	33
			636,598	**276,319**	**(360,279)**
Food catering company	R	Delivering Cantonese cuisine and Chinese banquet and dining services	8,875	64,683	55,808
			8,875	**64,683**	**55,808**

(ii) Realised gain (loss) on financial assets at FVTPL disposed of during the year ended 31 December 2016 (continued)

Industry	Abbreviation of investee company	# Principal activities of investee company	*Acquisition cost during the year/carrying amount as at 1 January 2016 *HK$'000*	Sale proceeds of financial assets at FVTPL sold during the year ended 31 December 2016 *HK$'000*	Realised gain (loss) recognised during the year ended 31 December 2016 *HK$'000*
Industrial materials company	**I**	Investment and trading of securities, provision for finance, property investment and manufacturing and sales of accessories for photographic products	3,271	1,817	(1,454)
	Others	–	1,164	916	(248)
			4,435	**2,733**	**(1,702)**
Mining and resources company	**S**	Mining, processing and sale of iron concentrates and gabbro-diabase and stone products in the PRC	52,500	32,900	(19,600)
			52,500	**32,900**	**(19,600)**
Property company	**T**	Resort and property development; property investment and investment holding	27,650	58,668	31,018
			27,650	**58,668**	**31,018**
Unlisted debt securities					
Banking company	**A**	Banking business	10,000	10,000	–
			10,000	**10,000**	**–**
			998,414	**514,744**	**(483,670)**

Extracted from published financial information of the investee companies.

* The amount represented the acquisition cost for the securities during the year ended 31 December 2016 and/or the carrying amount of the securities brought forward from the prior financial year after accounting for additional acquisition and/or disposal of the securities (if any) during the current financial year.

Management Discussion and Analysis

Available-for-sale ("AFS") investments

At 31 December 2016, the Group's long-term AFS investments portfolio of HK$922,917,000 (2015: HK$846,820,000) was measured at market/fair value. During the year under review, the Group's long-term AFS investments portfolio generated total revenue amounting to HK$74,082,000 (2015: HK$6,373,000) representing dividends from equity securities of HK$2,131,000 (2015: HK$6,373,000) and interest income from listed and unlisted debt securities of HK$71,951,000 (2015: nil).

During the year under review, the Group invested approximately HK$156,000,000 to subscribe at par bonds in the aggregate principal amount of US$20,000,000 issued by a blue-chip international bank listed on the Stock Exchange and subsequently divested part of such debt securities in the aggregate principal amount of approximately HK$117,000,000 (equivalent to US$15,000,000) with cumulative gain of approximately HK$4,212,000 previously accumulated in the investment revaluation reserve, the cumulative gain was subsequently reclassified to profit or loss accordingly. During the year under review, the investment generated an interest income of approximately HK$1,365,000 (2015: nil).

During the year under review, the Group also invested HK$50,000,000 to subscribe at par bonds issued by an insurance company listed on the Stock Exchange. At the year end, a fair value loss on the investment amounting to HK$2,750,000 (2015: nil) was recognised as other comprehensive expense. During the year, the investment generated an interest income of approximately HK$386,000 (2015: nil).

In December 2015, the Group invested approximately HK$772,200,000 to subscribe at par the 9% perpetual securities in the aggregate principal amount of US$100,000,000 issued by Evergrande Real Estate Group Limited (now known as China Evergrade Group) ("Evergrande"), a company listed on the Stock Exchange which is principally engaged in the development of large-scale residential properties and integrated commercial properties. At the year end, a fair value gain on the investment amounting to HK$4,680,000 (2015: HK$3,120,000) was recognised as other comprehensive income mainly due to the change in risk factors when conducting valuation on the perpetual securities. During the year, the investment generated an interest income of approximately HK$70,200,000 (2015: nil).

In December 2014, the Group invested in H shares of Shengjing Bank Co., Ltd., a commercial bank established in the PRC whose shares are listed on the Stock Exchange. During the year ended 31 December 2015, the Group disposed part of such investment with cumulative gain of HK$36,955,000 previously accumulated in the investment revaluation reserve, the cumulative gain was subsequently reclassified to profit or loss accordingly. At the year end, a fair value loss on the investment amounting to HK$15,015,000 (2015: gain of HK$53,169,000) was recognised as other comprehensive expenses to reflect the decline in market value of the shares. During the year, a dividend of approximately HK$2,131,000 (2015: HK$6,373,000) was earned from the investment.

Accordingly, at 31 December 2016, the Group invested in bonds of a banking company and an insurance company, equity shares of a banking company and perpetual securities of a property company as long-term AFS investments and their respective weighting to the market/fair value of the Group's AFS portfolio of HK$922,917,000 (2015: HK$846,820,000) (together with other information) were as below:

Category of companies	Approximate weighting to the market/fair value of the Group's AFS investments portfolio %	% of shareholding interest %	Acquisition costs HK$'000	* Acquisition cost during the year/carrying amount as at 1 January 2016 HK$'000	Market/fair value as at 31 December 2016 HK$'000	Accumulated fair value gain (loss) recognised up to 31 December 2016 HK$'000	Fair value gain (loss) recognised during the year ended 31 December 2016 HK$'000
			A	B	C	D = C - A	E = C - B
Banking company							
– debt securities	4.25	–	39,000	39,000	39,182	182	182
– equity securities	6.12	0.46	54,599	71,500	56,485	1,886	(15,015)
Insurance company							
– debt securities	5.12	–	50,000	50,000	47,250	(2,750)	(2,750)
Property company							
– debt securities	84.51	–	772,200	775,320	780,000	7,800	4,680
	100.00		915,799	935,820	922,917	7,118	(12,903)

* The amount represented the acquisition cost for the securities during the year ended 31 December 2016 and/or the carrying amount of the securities brought forward from the prior financial year after accounting for additional acquisition and/or disposal of the securities (if any) during the current financial year.

Trading

During the year under review, the Group's trading operation continued to focus on the trading of metal minerals and electronic components and has expanded its business scope to metal products. When compared to the prior year, the operation recorded a 59% drop in revenue to HK$86,273,000 (2015: HK$209,256,000) and a 45% decrease in profit to HK$1,534,000 (2015: HK$2,777,000). The significant drop in the operation's revenue and profit were principally due to the decrease in volume of metal minerals and electronic components transacted during the year, which was in turn due to the increased competition among suppliers and the sluggish demand from customers based in Mainland China resulting from the slowdown of the economy.

Money Lending

The money lending operation showed a significant growth in revenue by about 4.8 times to HK$89,533,000 (2015: HK$15,442,000), such increase was mainly due to the higher average amount of loans advanced to customers during the year when compared to the previous year. The loans portfolio held by the Group amounted to HK$754,212,000 at the year end (2015: HK$480,099,000). During the year under review, there was no impairment loss recognised against the loan receivables.

At 31 December 2016, the Group had made loans to individual and corporate clients with details as follows:

Category of borrowers	Approximate weighting to the value of the Group's loan portfolio	Interest rate per annum	Maturity
	%	%	
Individual	15.45	15 – 24	Within one year
Individual	17.92	9.5 – 13.5	Over one year but within two years
Corporate	66.63	8 – 18	Within one year
	100.00		

Securities Brokerage

In February 2016, the Group successfully acquired the entire issued share capital of a securities brokerage company for a cash consideration of approximately HK$18,312,000. The securities brokerage company is licensed by the Hong Kong Securities and Futures Commission to carry out dealing in securities activity. The acquisition of the securities brokerage company represents a further step of the Group to diversify its financial services business and tap into the vast business opportunities of Hong Kong financial markets. During the year under review, the securities brokerage business contributed revenue and profit of HK$5,056,000 and HK$3,417,000 respectively.

Overall Results

For the year ended 31 December 2016, the Group recorded loss attributable to owners of the Company of HK$436,870,000 (2015: profit attributable to owners of the Company of HK$584,148,000) and basic loss per share of HK2.57 cents (2015: basic earnings per share of HK5.02 cents). The Group also recorded total comprehensive expense attributable to owners of the Company of HK$449,773,000 (2015: total comprehensive income attributable to owners of the Company of HK$603,482,000). The loss results recorded by the Group were mainly attributed to the substantial loss recognised by the Group's securities investment operation of HK$549,495,000 (2015: profit of HK$720,121,000) despite there was a significant increase in profit generated by the Group's money lending business amounting to HK$87,971,000 (2015: HK$14,436,000).

FINANCIAL REVIEW

Liquidity, Financial Resources and Capital Structure

For the year ended 31 December 2016, the Group financed its operation mainly by cash generated from its operations, credit facilities provided by banks, issuance of interest bearing notes and shareholders' funds. At the year end, the Group had current assets of HK$3,467,359,000 (2015: HK$2,733,255,000) and liquid assets comprising bank balances and cash as well as financial assets (comprising mainly listed equity securities, unlisted debt and convertible securities) totalling HK$2,703,268,000 (2015: HK$2,085,782,000) (excluding pledged bank deposits). The Group's current ratio, calculated based on current assets over current liabilities of HK$171,051,000 (2015: HK$222,751,000), was at a very strong ratio of about 20.3 (31 December 2015: 12.3). At 31 December 2016, the Group's trade and other receivables amounted to HK$94,690,000 (2015: HK$114,933,000), which mainly comprised trade and bill receivables arising from the Group's trading activities, interest receivables from the Group's securities investments and unrestricted deposits placed with securities brokers for securities trading activities. The Group also had deferred tax liabilities amounted to HK$5,262,000 (2015: HK$99,000,000) which was related to the net unrealised gain on financial assets valued at market/fair value at the year end.

At 31 December 2016, the equity attributable to owners of the Company amounted to HK$2,921,227,000 (2015: HK$3,371,000,000) and was equivalent to an attributable amount of approximately HK17.20 cents (31 December 2015: HK19.84 cents) per share of the Company. The decrease in equity attributable to owners of the Company was mainly a result of the loss incurred by the Group during the year.

At 31 December 2016, the Group's bank borrowings represented advances from banks drawn on bill receivables discounted with full recourse and bank borrowings raised for acquiring debt securities. The borrowings bore interests at floating rates, secured by the relevant bill receivables and debt securities and were repayable within one year or on demand. In December 2016, the Company issued 2-year notes with aggregate principal amount of HK$1,500,000,000 bearing interest at 7% per annum and 8% per annum for the first and second year respectively. The Group's gearing ratio, calculated on the basis of total liabilities of HK$1,641,970,000 (2015: HK$222,751,000) divided by the equity attributable to owners of the Company of HK$2,921,227,000 (2015: HK$3,371,000,000), was of about 56.2% (2015: 6.6%). The increase in the Group's gearing ratio was mainly due to the issuance of the 2-year interest bearing notes. The finance costs for the year amounted to HK$6,735,000 (2015: HK$409,000), representing interests on notes payable, bill receivables discounted to banks and bank borrowings.

With the amount of liquid assets on hand as well as credit facilities granted by banks, the management is of the view that the Group has sufficient financial resources to meet its ongoing operational requirements.

Foreign Currency Management

The monetary assets and liabilities as well as business transactions of the Group are mainly denominated in Hong Kong dollars and United States dollars. During the year under review, the Group had not experienced any significant exposure to exchange rate fluctuations, as such, the Group had not entered into any foreign currency forward contracts, currency swaps or other financial derivatives for hedging purposes.

Contingent Liability

At 31 December 2016, the Group had no significant contingent liability (2015: nil).

Pledge of Assets

At 31 December 2016, bill receivables of HK$21,893,000 (2015: HK$101,121,000), debt securities of HK$86,432,000 (2015: nil) and bank deposits of HK$30,531,000 (2015: HK$52,342,000) were pledged to banks to secure credit facilities granted to the Group.

Capital Commitment

At 31 December 2016, the Group had no significant capital commitment.

At 31 December 2015, the Group had capital commitments totaling HK$36,772,000 for acquisition of the entire shareholdings interest in a securities brokerage company and a vessel as to HK$16,000,000 and HK$20,772,000 respectively.

Event After Reporting Period

In January 2017, the Group's investment in perpetual securities in the aggregate principal amount of US$100,000,000 (equivalent to approximately HK$780,000,000) issued by Evergrande (included as AFS investments) were redeemed at par.

HUMAN RESOURCES AND REMUNERATION POLICY

At 31 December 2016, the Group had 45 (2015: 34) employees including directors of the Company and staff costs (including directors' emoluments) for the year amounted to HK$34,233,000 (2015: HK$30,765,000). The remuneration packages for directors and staff are normally reviewed annually and are structured by reference to prevailing market terms and individual competence, performance and experience. The Group operates a Mandatory Provident Fund Scheme for employees in Hong Kong. In addition, the Group provides other employee benefits including medical insurance, share option scheme and discretionary bonus.

PRINCIPAL RISK AND UNCERTAINTIES

The Group is principally engaged in the business of investment in securities, trading of metal minerals and products and electronic components, money lending and securities brokerage. The financial position, operations, businesses and prospects of the Group and its individual business segment are affected by the following significant risk and uncertainty factors:

Business Risk

The global economic conditions and the state of international financial and investment markets, including the economy, financial and investment markets of the United States, Mainland China and Hong Kong, of which the Group has no control, have significant influences on the business and financial performance of the Group. The management policy to mitigate this risk is to diversify the Group's business and to diversify its investments (where possible) within the same business, as in the case of the Group's investment in securities business.

Market Risk

The Group's money lending business, trading business of metal minerals and products and electronic components, and securities brokerage business are all operating in a very competitive environment that put pressure on the revenue and profitability of these businesses. The management policy to mitigate this risk is to continue to put effort in enlarging the market share and enhancing the market competitiveness of these businesses by various means.

Financial Risk

The Group is exposed to financial risks relating to interest rate, equity price, foreign currency, credit and liquidity risk in its ordinary course of business. For further details of such risks and relevant management policies, please refer to Note 37 to the consolidated financial statements for details.

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

As far as the Board and management are aware, the Group has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Group. During the year under review, there was no material breach of or non-compliance with the applicable laws and regulations by the Group.

RELATIONSHIP WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group understands the importance of maintaining a good relationship with its employees, customers and suppliers to meet its immediate and long-term business goals. During the year ended 31 December 2016, there were no significant dispute between the Group and its employees, customers and suppliers.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group encourages environmental protection and adopts measures to promote environmental awareness of its employees. The Group implements green office practices by encouraging employees to make use of e-statements or scanning copies, double-sided printing and copying and setting up of recycle boxes for reducing and disposing of waste. The Group also reduces green-house emissions by switching off idle lightings and other office equipments after normal working hours. The Group regularly review its environmental practices for further improvements.

Biographical Details of Directors

The biographical details of Directors as at 23 March 2017, the date of this annual report, are set out below:

EXECUTIVE DIRECTORS

Dr. Or Ching Fai, *Chairman and Chief Executive Officer*

Aged 67, joined the Company as an Executive Director and the Chief Executive Officer in November 2009, and was appointed the Chairman on 2 March 2012. Dr. Or is the chairman of the Nomination Committee, the Executive Committee and the Investment & Credit Committee. He is also a director of certain subsidiaries of the Company. Dr. Or graduated from The University of Hong Kong in 1972 and was awarded an Honorary Doctor of Social Science from the City University of Hong Kong in 2014. Dr. Or is a Justice of the Peace and has rich experiences in the insurance, banking and financial services industries. He was the general manager and a director of The Hongkong and Shanghai Banking Corporation Limited. He was also the chairman of HSBC Insurance Limited. Dr. Or was the chief executive and vice-chairman of Hang Seng Bank Limited (Hong Kong stock code: 11), a company listed in Hong Kong. He was also the chairman of Hang Seng Insurance Company Limited and Hang Seng Bank (China) Limited. Dr. Or was the chairman of the Hong Kong Association of Banks; the vice president and a council member of the Hong Kong Institute of Bankers; the chairman of Executive and Campaign Committee of the Community Chest of Hong Kong. Dr. Or is a vice patron of the board of the Community Chest of Hong Kong. Dr. Or was awarded a Silver Bauhinia Star from the Hong Kong Special Administrative Region and Honorary University Fellowships from The University of Hong Kong in 2009. Dr. Or was the chairman of the Financial Services Advisory Committee and a member of the Services Promotion Programme Committee of the Hong Kong Trade Development Council. He was a member of the Risk Management Committee of Hong Kong Exchanges and Clearing Limited and a member of the Aviation Development Advisory Committee. He was the deputy chairman of the Council of City University of Hong Kong and was a council member of The University of Hong Kong; an adviser of the Employers' Federation of Hong Kong, a member of the 5th East Asian Games Planning Committee and a director of 2009 East Asian Games (Hong Kong) Limited. Dr. Or was a director of Cathay Pacific Airways Limited (Hong Kong stock code: 293) and Hutchison Whampoa Limited (Hong Kong stock code: 13 (delisted)). Dr. Or is the chairman and an independent non-executive director of Esprit Holdings Limited (Hong Kong stock code: 330), the vice-chairman and an independent non-executive director of G-Resources Group Limited (Hong Kong stock code: 1051) ("G-Resources") and an independent non-executive director of Chow Tai Fook Jewellery Group Limited (Hong Kong stock code: 1929), Industrial and Commercial Bank of China Limited (Hong Kong stock code: 1398), Regina Miracle International (Holdings) Limited (Hong Kong stock code: 2199) and Television Broadcasts Limited (Hong Kong stock code: 511). All of the aforementioned companies with Hong Kong stock code are/was listed on the Stock Exchange. Dr. Or is the deputy chairman and a non-executive director of Aquis Entertainment Limited (Australian stock code: ASX: AQS) ("Aquis Entertainment"), a company listed on the Australian Securities Exchange.

Biographical Details of Directors

Mr. Sue Ka Lok

Aged 51, joined the Group in November 2014 and was appointed as an Executive Director in December 2014, and the Company Secretary in April 2015. Mr. Sue is a member of the Executive Committee and the Investment & Credit Committee. He is also a director of certain subsidiaries of the Company. Mr. Sue holds a Bachelor of Economics degree from The University of Sydney in Australia and a Master of Science in Finance degree from the City University of Hong Kong. Mr. Sue is a fellow of the Hong Kong Institute of Certified Public Accountants, a certified practising accountant of the CPA Australia, and a fellow of The Hong Kong Institute of Chartered Secretaries, the Institute of Chartered Secretaries and Administrators and the Hong Kong Securities and Investment Institute. He has extensive experience in corporate management, finance, accounting and company secretarial practice. Mr. Sue is an executive director of Birmingham International Holdings Limited (Hong Kong stock code: 2309) ("Birmingham International"); the chairman and an executive director of Courage Marine Group Limited (Hong Kong stock code: 1145 and Singapore stock code: ATL.SI) ("Courage Marine"); the chief executive officer and an executive director of EPI (Holdings) Limited (Hong Kong stock code: 689) ("EPI (Holdings)"); an executive director of ITC Corporation Limited (Hong Kong stock code: 372) ("ITC Corporation"); and a non-executive director of Tianli Holdings Group Limited (Hong Kong stock code: 117) ("Tianli Holdings"). All of the aforementioned companies with Hong Kong stock code are listed on the Stock Exchange and Courage Marine is primarily listed on the Stock Exchange and secondarily listed on the Singapore Exchange Securities Trading Limited.

Ms. Lee Chun Yeung, Catherine

Aged 48, joined the Group in September 2014 and was appointed as an Executive Director in February 2015. Ms. Lee is a member of the Executive Committee. She is also a director of certain subsidiaries of the Company. Ms. Lee holds a Bachelor of Arts degree from Guangdong University of Foreign Studies (formerly known as Guangzhou Institute of Foreign Languages) and a Master of Business Administration degree from the University of South Australia. She has extensive experience in international trading of metal minerals and commodities. Ms. Lee had worked as an economist in a major commercial bank and a senior executive in a state-owned trading group in the PRC.

Mr. Chow Kam Wah

Aged 54, joined the Company as an Executive Director in July 2007. Mr. Chow is a member of the Executive Committee and the Investment & Credit Committee. He is also a director of certain subsidiaries of the Company. Mr. Chow holds a master's degree in accountancy from The Hong Kong Polytechnic University. He has over 15 years of managerial experience in finance and accounting. Mr. Chow is a certified practising accountant of the CPA Australia.

Biographical Details of Directors

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. Ma Yin Fan

Aged 53, joined the Company as an Independent Non-executive Director in September 2007. Ms. Ma is the chairman of the Audit Committee and a member of the Remuneration Committee and the Nomination Committee. Ms. Ma obtained a bachelor's degree with honours in accounting from Middlesex University in the United Kingdom. She is also awarded the Master of Business Administration and Master in Professional Accounting degree from Heriot-Watt University in the United Kingdom and The Hong Kong Polytechnic University respectively. Ms. Ma is a CPA (Practising) in Hong Kong and has been working in the auditing, accounting and taxation areas with more than 20 years of professional experience. She is the principal of Messrs. Ma Yin Fan & Company CPAs. Ms. Ma is a fellow member of the Hong Kong Institute of Certified Public Accountants, the Institute of Chartered Accountants in the England and Wales, The Taxation Institute of Hong Kong, the Association of Chartered Certified Accountants, The Hong Kong Institute of Chartered Secretaries and the Institute of Chartered Secretaries and Administrators. She is also a Certified Tax Adviser in Hong Kong. Ms. Ma is an independent non-executive director of NetMind Financial Holdings Limited (Hong Kong stock code: 985) ("NetMind Financial"), a company listed on the Stock Exchange.

Mr. Chow Yu Chun, Alexander

Aged 69, joined the Company as an Independent Non-executive Director in March 2011. Mr. Chow is the chairman of the Remuneration Committee and a member of the Audit Committee. Mr. Chow is a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants. He has over 35 years of experience in commercial, financial and investment management in Hong Kong and Mainland China. Mr. Chow is an independent non-executive director of Playmates Toys Limited (Hong Kong stock code: 869), Symphony Holdings Limited (Hong Kong stock code: 1223) and Top Form International Limited (Hong Kong stock code: 333). All of the aforementioned companies are listed on the Stock Exchange. Mr. Chow is also an independent non-executive director of Aquis Entertainment.

Mr. Leung Hoi Ying

Aged 66, joined the Company as an Independent Non-executive Director in September 2007. Mr. Leung is a member of the Audit Committee, the Remuneration Committee and the Nomination Committee. Mr. Leung graduated from Guangdong Foreign Trade School in the PRC. He has over 15 years of experience in the trading business and business development. Mr. Leung is an independent non-executive director of NetMind Financial.

Report of the Directors

The Directors are pleased to present their report and the audited consolidated financial statements of the Group for the year ended 31 December 2016.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Company acts as an investment holding company. The principal activities of its principal subsidiaries are set out in Note 44 to the consolidated financial statements.

Further discussion and analysis of the Group's activities as required by Schedule 5 to the Hong Kong Companies Ordinance, including a discussion of the principal risks and uncertainties facing the Group, particulars of important events affecting the Group that have occurred since the end of the financial year and an indication of likely future developments in the Group's business, can be found in the "Chairman's Statement" and "Management Discussion and Analysis" sections set out on pages 4 to 23 of this annual report. This discussion forms part of this directors' report.

RESULTS

The results of the Group for the year ended 31 December 2016 are set out in the consolidated statement of profit or loss and other comprehensive income on page 53.

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2016 (2015: nil).

FIVE-YEAR FINANCIAL SUMMARY

A summary of the published results and assets and liabilities of the Group for the last five financial years, as extracted from the audited consolidated financial statements of the Company, is set out on page 120. This summary does not form part of the audited consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movement in the property, plant and equipment of the Group during the year are set out in Note 18 to the consolidated financial statements.

DONATIONS

There is no charitable donation made by the Group during the year ended 31 December 2016.

SHARE CAPITAL

Details of movements in the Company's share capital during the year are set out in Note 33 to the consolidated financial statements.

Report of the Directors

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

During the year ended 31 December 2016, neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

DISTRIBUTABLE RESERVE

As at 31 December 2016, the Company had no reserve available for distribution to shareholders.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, sales to the Group's five largest customers accounted for approximately 38% of the total sales for the year and sales to the largest customer accounted for approximately 10%. Purchases from the Group's five largest suppliers accounted for approximately 100% of the total purchases for the year and purchases from the largest supplier accounted for approximately 40%.

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 shares) had any beneficial interest in the Group's five largest customers or suppliers during the year.

DIRECTORS

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

Executive Directors:

Dr. Or Ching Fai
Mr. Sue Ka Lok
Ms. Lee Chun Yeung, Catherine
Mr. Chow Kam Wah
Mr. Hui Richard Rui (resigned on 1 March 2016)

Independent Non-executive Directors:

Ms. Ma Yin Fan
Mr. Chow Yu Chun, Alexander
Mr. Leung Hoi Ying

In accordance with Article 116 of the Company's Articles of Association, Dr. Or Ching Fai, Mr. Sue Ka Lok and Ms. Ma Yin Fan will retire at the forthcoming annual general meeting of the Company (the "2017 AGM") by rotation and, being eligible, will offer themselves for re-election in the 2017 AGM.

DIRECTORS OF SUBSIDIARIES

During the year and up to the date of this report, Dr. Or Ching Fai, Mr. Sue Ka Lok, Ms. Lee Chun Yeung, Catherine and Mr. Chow Kam Wah are also directors in certain subsidiaries of the Company. Other directors of the subsidiaries of the Company during the year and up to the date of this report include Mr. Hui Richard Rui, Mr. Zhu Kai and Mr. Leung Wing Shing.

PERMITTED INDEMNITY PROVISION

Pursuant to the Company's Articles of Association, subject to the statutes, every director shall be indemnified out of the assets of the Company against all losses and liabilities which he/she may sustain or incur in or about the execution of his/her office or otherwise in relation thereto. The Company has arranged appropriate directors' and officers' liability insurance coverage for the directors and other officers of the Company during the year.

DIRECTORS' SERVICE CONTRACTS

None of the directors being proposed for re-election at the 2017 AGM has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REMUNERATION

Details of the directors' remuneration are set out in Note 14 to the consolidated financial statements.

UPDATES ON DIRECTORS' INFORMATION

The following is updated information of directors of the Company required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules:

1. Mr. Sue Ka Lok has been appointed as an executive director of Birmingham International on 15 October 2016; has been appointed as an executive director and the chief executive officer of EPI (Holdings) on 18 October 2016 and 19 October 2016 respectively was redesignated as a non-executive director of Tianli Holdings on 8 November 2016; and has been appointed as an executive director of ITC Corporation on 8 March 2017.

2. Ms. Ma Yin Fan resigned as an independent non-executive director of G-Resources on 3 February 2017.

3. Mr. Leung Hoi Ying resigned as an independent non-executive director of G-Resources on 3 February 2017.

4. The director's remuneration of Dr. Or Ching Fai has been increased to HK$11,700,000 per annum under his service contract with the Company with effect from 1 February 2017. The revised remuneration was recommended by the Remuneration Committee of the Company and approved by the Board.

UPDATES ON DIRECTORS' INFORMATION (continued)

5. The director's remuneration of Mr. Sue Ka Lok has been increased to HK$1,592,500 per annum under his service contract with a subsidiary of the Company with effect from 1 February 2017. The revised remuneration was recommended by the Remuneration Committee of the Company and approved by the Board.

6. The director's remuneration of Ms. Lee Chun Yeung, Catherine has been increased to HK$1,059,500 per annum under her service contract with a subsidiary of the Company with effect from 1 February 2017. The revised remuneration was recommended by the Remuneration Committee of the Company and approved by the Board.

7. The director's remuneration of Mr. Chow Kam Wah has been increased to HK$1,131,000 per annum under his service contract with the Company with effect from 1 February 2017. The revised remuneration was recommended by the Remuneration Committee of the Company and approved by the Board.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save for the related party disclosures as disclosed in the Note 42 to the consolidated financial statements, no other transactions, arrangements or contracts of significance to which the Company or any of its subsidiaries was a party and in which a director of the Company and the director's connected entity had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2016, none of the directors or chief executive of the Company had registered an interest or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) that was required to be recorded pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the "Share option scheme" disclosure in Note 35 to the consolidated financial statements, at no time during the year was the Company or any of its subsidiaries a party to any arrangements 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, and none of the directors of the Company or their spouse or minor children had any rights to subscribe for the securities of the Company, or had exercised any such rights during the year.

SHARE OPTION SCHEME

Details of the share option scheme of the Company are set out in Note 35 to the consolidated financial statements.

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

As at 31 December 2016, the following interests of more than 5% of the issued shares of the Company were recorded in the register of interests required to be kept by the Company pursuant to section 336 of the SFO.

Long positions in the shares of the Company:

Name of shareholder	Capacity and nature of interest	Number of shares held	Approximate percentage of the Company's issued shares
Suen Cho Hung, Paul ("Mr. Suen")	Interest of controlled corporation	1,680,000,000 *(Note)*	9.89%
Pioneer Success Development Limited ("Pioneer Success")	Beneficial owner	1,680,000,000 *(Note)*	9.89%

Note: These shares were held by Pioneer Success, which in turn was wholly owned by Mr. Suen. Mr. Suen is the sole director of Pioneer Success. Accordingly, Mr. Suen and Pioneer Success were deemed to be interested in 1,680,000,000 shares of the Company under the SFO.

The interests of Mr. Suen and Pioneer Success in 1,680,000,000 shares of the Company referred to in the note above related to the same parcel of shares.

Save as disclosed above, the Company had not been notified of any other relevant interests or short positions in the shares and underlying shares of the Company as at 31 December 2016 as required pursuant to section 336 of the SFO.

CONNECTED TRANSACTIONS

The related party disclosures as disclosed in Note 42 to the consolidated financial statements fall under the scope of "Connected Transactions" or "Continuing Connected Transactions" under Chapter 14A of the Listing Rules but are exempted from reporting, annual review, announcement or independent shareholders' approval requirements.

REMUNERATION POLICY

The Group remunerates its employees based on their competence, performance, experience and prevailing market terms. Other employee benefits included provident fund scheme, medical insurance, share option scheme as well as discretionary bonus.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the year and up to the date of this annual report, none of the directors, or any of their respective associates (as defined in the Listing Rules) had any material interest in a business that competes or may compete with the business of the Group.

EQUITY-LINKED AGREEMENTS

Save for the share option scheme of the Company as disclosed in Note 35 to the consolidated financial statements, no equity-linked agreements were entered into by the Group, or existed during the year.

MANAGEMENT CONTRACTS

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

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued shares is held by the public as at the date of this report.

AUDIT COMMITTEE

The audited consolidated financial statements of the Company for the year ended 31 December 2016 have been reviewed by the Audit Committee before they are duly approved by the Board under the recommendation of the Audit Committee.

AUDITOR

The consolidated financial statements of the Company for the year ended 31 December 2016 have been audited by Deloitte Touche Tohmatsu.

A resolution will be proposed at the 2017 AGM to re-appoint Deloitte Touche Tohmatsu as auditor of the Company.

On behalf of the Board

Dr. Or Ching Fai
Chairman

Hong Kong, 23 March 2017

Corporate Governance Report

The Company has recognised the importance of transparency and accountability, and believes that shareholders can benefit from good corporate governance. The Company aims to achieve good standard of corporate governance.

CORPORATE GOVERNANCE

The Company has complied with all the applicable provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules for the year ended 31 December 2016, except for the following deviations with reasons as explained:

Chairman and chief executive

Code Provision A.2.1

Code Provision A.2.1 of the CG Code requires the roles of the chairman and chief executive should be separate and should not be performed by the same individual.

Deviation

The Company has deviated from the requirement during the year ended 31 December 2016. The Board believes that vesting the roles of chairman and chief executive officer in the same person provides the Company with strong and consistent leadership in the development and execution of long-term business strategy.

Responsibilities of directors

Code Provision A.6.7

Code provision A.6.7 of the CG Code stipulates that independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders.

Deviation

One independent non-executive director of the Company was unable to attend the annual general meeting of the Company held on 28 June 2016 (the "2016 AGM") as he had other important business engagement. However, there were three executive directors and two independent non-executive directors of the Company present at the 2016 AGM to enable the Board to develop a balanced understanding of the views of shareholders of the Company.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by directors of the Company. Having made specific enquiry with the directors, all of them confirmed that they have complied with the required standards set out in the Model Code during the year ended 31 December 2016.

BOARD OF DIRECTORS

The Board formulates overall strategy of the Group, monitors its financial performance and maintains effective oversight over the management. The Board members are fully committed to their roles and have acted in good faith to maximize the shareholders' value in the long run, and have aligned the Group's goal and directions with the prevailing economic and market conditions. Daily operations and administration are delegated to the management.

The Board met regularly throughout the year to discuss the overall strategy as well as the operation and financial performance of the Group. The directors are kept informed on timely basis of major changes that may affect the Group's business, including relevant rules and regulations. The directors can, upon reasonable request, seek independent professional advice in appropriate circumstances, at the Company's expenses. The Board shall resolve to provide separate appropriate independent professional advice to the directors to assist the relevant directors to discharge their duties.

As at 23 March 2017, the date of this annual report, the Board comprises seven directors, four of which are Executive Directors, namely Dr. Or Ching Fai ("Dr. Or") (Chairman and Chief Executive Officer), Mr. Sue Ka Lok, Ms. Lee Chun Yeung, Catherine and Mr. Chow Kam Wah, and three are Independent Non-executive Directors, namely Ms. Ma Yin Fan ("Ms. Ma"), Mr. Chow Yu Chun, Alexander ("Mr. Chow") and Mr. Leung Hoi Ying ("Mr. Leung"). The directors are considered to have a balance of skill and experience appropriate for the requirements of the business of the Company. The Company has received from each of the independent non-executive directors an annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all the independent non-executive directors are independent in accordance with the independence guidelines set out in the Listing Rules. Biographical details of the directors are set out under the section headed "Biographical Details of Directors" on pages 24 to 26 of this annual report.

As disclosed in that section, Dr. Or is the vice-chairman and an independent non-executive director of G-Resources of which both Ms. Ma and Mr. Leung was an independent non-executive director until 3 February 2017. Dr. Or is the deputy chairman and a non-executive director of Aquis Entertainment of which Mr. Chow is an independent non-executive director. Both Ms. Ma and Mr. Leung is an independent non-executive director of NetMind Financial. Save for the aforesaid, there is no other financial, business, family or other material/relevant relationship between Dr. Or, the Chairman and the Chief Executive Officer, and senior management and members of the Board.

BOARD OF DIRECTORS (continued)

The Company will provide a comprehensive, formal and tailored induction to each newly appointed director on his/her first appointment in order to enable him/her to have appropriate understanding of the business and operations of the Company and that he/she is fully aware of his/her responsibilities and obligations under the Listing Rules and relevant regulatory requirements.

All directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. Directors are continually updated on developments in the statutory and regulatory regime and the business environment to facilitate the discharge of their responsibilities. The Company has provided timely technical updates, including the briefing on the amendments on the Listing Rules and the news release published by the Stock Exchange to the directors. Continuing briefing and professional development for directors are arranged where necessary.

During the year ended 31 December 2016, four regular Board meetings and 2016 AGM were held and the attendance of each director is set out as follows:

	Number of attendance	
	Board Meetings	**2016 AGM**
Executive Directors		
Dr. Or Ching Fai	4/4	1/1
Mr. Sue Ka Lok	4/4	1/1
Ms. Lee Chun Yeung, Catherine	4/4	1/1
Mr. Chow Kam Wah	4/4	1/1
Mr. Hui Richard Rui (resigned on 1 March 2016)	1/1	N/A
Independent Non-executive Directors		
Ms. Ma Yin Fan	4/4	1/1
Mr. Chow Yu Chun, Alexander	4/4	1/1
Mr. Leung Hoi Ying	4/4	0/1

CHAIRMAN AND CHIEF EXECUTIVE

Code Provision A.2.1 of the CG Code requires the roles of the chairman and chief executive should be separate and should not be performed by the same individual. The Company has deviated from the requirement during the year ended 31 December 2016. Dr. Or Ching Fai acted as Executive Director, Chairman and Chief Executive Officer of the Company. Although this arrangement constitutes a deviation from the CG Code, the Board considers that the management structure of the Company, where the leadership of the Board is distinct from the executive responsibilities for running of the business operations, will not impair the balance of power and authority between the Board and the management of the business, the Board further believes that vesting the roles of chairman and chief executive officer in the same person provides the Company with strong and consistent leadership in the development and execution of long-term business strategy.

TERM OF APPOINTMENT OF NON-EXECUTIVE DIRECTORS

According to the CG Code, the non-executive directors should be appointed for a specific term and subject to re-election. All Independent Non-executive Directors (including Ms. Ma Yin Fan, Mr. Chow Yu Chun, Alexander and Mr. Leung Hoi Ying) have signed an appointment letter with the Company specifying the terms of his/her continuous appointment as an independent non-executive director and a member of the relevant Board committees for a period of two years, subject to retirement by rotation and re-election at least once every three years at the annual general meetings of the Company as governed by the Company's Articles of Association.

REMUNERATION COMMITTEE

The Remuneration Committee has specific written terms of reference that is in compliance with the CG Code. As at the date of this annual report, the Remuneration Committee comprises three Independent Non-executive Directors, namely Ms. Ma Yin Fan, Mr. Chow Yu Chun, Alexander and Mr. Leung Hoi Ying. Mr. Chow Yu Chun, Alexander is the Chairman of the Remuneration Committee.

The Remuneration Committee is mainly responsible for formulating the remuneration policy, reviewing and recommending to the Board the annual remuneration policy and the remuneration of the directors. The overriding objective of the remuneration policy is to ensure that the Group is able to attract, retain and motivate a high-caliber team which is essential to the success of the Group. The full terms of reference are available on the Company's website and the Stock Exchange's website.

The Remuneration Committee met one time during the year ended 31 December 2016 to review and make recommendations to the Board on the discretionary bonus for executive directors and remuneration packages for directors. The attendance of each member is set out as follows:

Members	Number of attendance
Mr. Chow Yu Chun, Alexander	1/1
Ms. Ma Yin Fan	1/1
Mr. Leung Hoi Ying	1/1

NOMINATION COMMITTEE

The Nomination Committee has specific written terms of reference that is in compliance with the CG Code. As at the date of this annual report, the Nomination Committee comprises three members, including one Executive Director, namely Dr. Or Ching Fai, and two Independent Non-executive Directors, namely Ms. Ma Yin Fan and Mr. Leung Hoi Ying. Dr. Or Ching Fai is the Chairman of the Nomination Committee.

The Nomination Committee is mainly responsible for identifying potential directors and making recommendations to the Board on the appointment or re-appointment of directors of the Company. Potential new directors are selected on the basis of their qualifications, skills and experience that he/she could add value to the management through his/her contributions in the relevant strategic business areas. The full terms of reference are available on the Company's website and the Stock Exchange's website.

NOMINATION COMMITTEE (continued)

The Nomination Committee met one time during the year ended 31 December 2016 to review the board diversity policy of the Company (the "Board Diversity Policy"), review the structure, size and composition of the Board; and review and make recommendation to the Board on the re-election of directors. The attendance of each member is set out as follows:

Members	Number of attendance
Dr. Or Ching Fai	1/1
Ms. Ma Yin Fan	1/1
Mr. Leung Hoi Ying	1/1

The Company recognises the benefits of having a diverse Board to enhance the quality of its performance and adopted the Board Diversity Policy on 19 July 2013. The Board Diversity Policy sets out that in determining the optimum composition of the Board, differences in skills, regional and industry experience, background, race, gender and other qualities of directors shall be considered. All Board appointments are made on merits, in the context of skills and experience the Board as a whole requires, with due regard for the benefits of diversity on the Board, and the Nomination Committee shall review and assess the Board composition and its effectiveness on an annual basis. When there is vacancy on Board, the Nomination Committee will recommend suitable candidates for appointment to the Board on merits, based on the terms of reference of the Nomination Committee, with due regard to the Company's own circumstances.

The Nomination Committee had reviewed the diversity of the Board of the Company during the year ended 31 December 2016 and will review the Board Diversity Policy from time to time to ensure that the policy will be implemented effectively.

AUDITOR AND AUDITOR'S REMUNERATION

The statement of the external auditor of the Company about their responsibilities on the Company's consolidated financial statements for the year ended 31 December 2016 is set out in the "Independent Auditor's Report" on pages 47 to 52 of this annual report.

For the year ended 31 December 2016, remuneration payable to the Company's auditor, Deloitte Touche Tohmatsu, for the provision of audit services was HK$1,438,000. During the year, HK$248,000 was paid as remuneration to Deloitte Touche Tohmatsu for performing a review on the Company's condensed consolidated financial statements for the six months ended 30 June 2016.

AUDIT COMMITTEE

The Audit Committee has specific written terms of reference that is in compliance with the CG Code. As at the date of this annual report, the Audit Committee comprises three Independent Non-executive Directors, namely Ms. Ma Yin Fan, Mr. Chow Yu Chun, Alexander and Mr. Leung Hoi Ying, who among themselves possess a wealth of management experience in the accounting profession and in commercial fields. Ms. Ma Yin Fan is the Chairman of the Audit Committee.

The Audit Committee is mainly responsible for reviewing financial statements of the Company, discussing the risk management and internal control of the Group and meeting with the auditor of the Company. Any findings and recommendations of the Audit Committee will be submitted to the Board for consideration.

The Audit Committee is authorised by the Board to investigate any activity within its terms of reference. It is authorised to seek any information it requires from any employee. It is also authorised to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers necessary. The full terms of reference are available on the Company's website and the Stock Exchange's website.

The Audit Committee met two times during the year ended 31 December 2016 and the attendance of each member is set out as follows:

Members	Number of attendance
Ms. Ma Yin Fan	2/2
Mr. Chow Yu Chun, Alexander	2/2
Mr. Leung Hoi Ying	2/2

The following is a summary of work performed by the Audit Committee during the year:

1. reviewed and discussed the audited consolidated financial statements of the Company for the year ended 31 December 2015 and recommended to the Board for approval;

2. reviewed and discussed the unaudited condensed consolidated financial statements of the Company for the six months ended 30 June 2016 and recommended to the Board for approval;

3. reviewed and discussed with the management and the auditor of the Company the accounting policies and practices which may affect the Group and the scope of the audit;

4. reviewed reports from the auditor of the Company regarding their audit on the Company's consolidated financial statements for the year ended 31 December 2015 and their review on the Company's condensed consolidated financial statements for the six months ended 30 June 2016;

5. reviewed the effectiveness of the internal control system of the Group; and

6. reviewed and approved the remuneration and the terms of engagement of the Company's auditor; and reviewed and made recommendations to the Board on the re-appointment of the Company's auditor.

EXECUTIVE COMMITTEE

The Executive Committee has been established since 31 March 2016. As at the date of this annual report, the Executive Committee comprises four Executive Directors, namely Dr. Or Ching Fai, Mr. Sue Ka Lok, Ms. Lee Chun Yeung, Catherine and Mr. Chow Kam Wah. Dr. Or Ching Fai is the Chairman of the Executive Committee. The Executive Committee is mainly responsible for overseeing the management and the administrative functions of the day-to-day operations of the Group and handling such other matters as delegated by the Board from time to time. The full terms of reference are available on the Company's website and the Stock Exchange's website. The Executive Committee will meet as and when necessary to discuss the operating affairs of the Group.

INVESTMENT & CREDIT COMMITTEE

The Investment & Credit Committee has been established since 31 March 2016. As at the date of this annual report, the Investment & Credit Committee comprises three Executive Directors, namely Dr. Or Ching Fai, Mr. Sue Ka Lok and Mr. Chow Kam Wah. Dr. Or Ching Fai is the Chairman of the Investment & Credit Committee. The Investment & Credit Committee is mainly responsible for overseeing and monitoring the activities of the securities investment operation and the money lending operation of the Group and handling such other matters relating to securities investments and money lending as delegated by the Board from time to time. The full terms of reference are available on the Company's website and the Stock Exchange's website. The Investment & Credit Committee will meet as and when necessary to discuss the activities of the securities investments and money lending of the Group.

DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Board is responsible for presenting a balanced, clear and understandable assessment of the Company's annual and interim reports, price-sensitive announcements and other financial disclosures required under the Listing Rules and other regulatory requirements.

The directors acknowledge their responsibility for preparing the consolidated financial statements of the Company for the year ended 31 December 2016.

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for determining the policy for the corporate governance of the Company and performing the corporate governance duties as below:

1. to develop and review the Group's policies and practices on corporate governance and make recommendations;

2. to review and monitor the training and continuous professional development of directors and senior management;

3. to review and monitor the Group's policies and practices on compliance with all legal and regulatory requirements;

4. to develop, review and monitor the code of conduct and compliance manual applicable to the employees and directors of the Group; and

5. to review the Group's compliance with the CG Code and disclosure requirements in the corporate governance report.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board has overall responsibilities for maintaining sound and effective risk management and internal control and reviewing their effectiveness to safeguard the shareholders' interests and the Group's assets. The risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and can provide reasonable but not absolute assurance against material misstatement or loss. The review covers financial, operational and compliance controls of the Group.

The Group does not have an internal audit function due to the size of the Group and consideration for cost effectiveness. During the year, the Company engaged an independent professional firm to conduct a review on the risk management and internal control systems to identify and evaluate significant risks of the Group's business operations. The Board believes that the involvement of an independent professional firm could enhance the objectivity and transparency of the evaluation process. They have performed an assessment of selected financial procedures, systems and internal controls in order to identify significant findings in the relevant internal controls of the Group. Certain aspects of their review include corporate governance and listing rules compliance. During the review, they have conducted interviews with the Group's management, staff members and key process operators, and inspected relevant documentations in order to understand the Group's processes and controls. They have performed testings to determine whether the controls have been properly implemented and operated, and finally identified certain findings based on their results of testings and developed relevant recommendations and suggestions for improvement.

RISK MANAGEMENT AND INTERNAL CONTROL (continued)

For the risk management perspective, the independent professional firm has also performed an assessment on the Group's financial, operation, compliance and strategic aspects and identified certain risk areas. A written risk assessment report with the identified key risks and risk evaluation results have been presented to the Board. The Board will implement appropriate measures to continue to minimize the identified risks and control them within acceptable levels. In order to manage risks effectively, the management will continue to monitor the identified risks and the respective control measures, and arrange adequate resources for the effective control measures undertaken.

In order to assess the importance and materiality of the above identified risks, the management ranked the risks based on the level of likelihood and impact from a scale of 1 to 5 (5 being the highest level), the highest the level of likelihood and risk impact, the more important and material the risks are, which the management will put more effort and resources in managing those risks.

For the year ended 31 December 2016, the Board has conducted an annual review of the effectiveness of the risk management and internal control systems of the Group by, including but not limited to, considering an internal control review report and a written risk assessment report prepared by the independent professional firm to the Audit Committee covering the above aspects. The Board has also considered the adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting and financial reporting function during the year under review. The Board is not aware of any significant internal control and risk management weaknesses nor significant breach of limits or risk management policies, and considers the existing internal control and risk management systems effective and adequate for the year ended 31 December 2016. The Company has complied with the relevant code provisions of the CG Code relating to risk management and internal control.

HANDLING AND DISSEMINATION OF INSIDE INFORMATION

The Company has put in place a policy on handling and dissemination of inside information which sets out the procedures and internal controls for handling and dissemination of inside information in a timely manner in such a way to avoid placing any person in a privileged dealing position. The inside information policy also provides guidelines to employees of the Group to ensure proper safeguards exists to prevent the Company from breaching the statutory and listing rule disclosure requirements. The Company has appropriate internal control and reporting systems to identify and assess potential inside information. Dissemination of inside information of the Company shall be conducted by publishing the relevant information on the websites of the Company and the Stock Exchange, according to the requirements of the Listing Rules.

COMPANY SECRETARY

Mr. Sue Ka Lok ("Mr. Sue"), an Executive Director of the Company, was appointed as the Company Secretary on 1 April 2015. The biographical details of Mr. Sue are set out under the section headed "Biographical Details of Directors" on pages 24 to 26 of this annual report. Mr. Sue has taken no less than 15 hours of the relevant professional training during the year ended 31 December 2016.

SHAREHOLDER RIGHTS AND INVESTOR RELATIONS

The annual general meeting ("AGM") of the Company provide a forum for communication between shareholders and the Board. The notice of the AGM is despatched to all shareholders at least 20 clear business days prior to such AGM. The chairmen of all Board committees are invited to attend the AGM. The chairman of the Board and the chairmen of all the Board committees, or in their absence, other members of the respective committees, are available to answer questions at the AGM. The auditor of the Company is also invited to attend the AGM to answer questions about the conduct of the audit, the preparation and content of the auditors' report, the accounting policies and auditor's independence.

Under Section 566 of the Hong Kong Companies Ordinance, shareholders representing at least 5% of the total voting rights of all the shareholders having a right to vote at the general meetings are entitled to send a request to the company to convene a general meeting. Such requisition must state the general nature of the business to be dealt with at the meeting and may include the text of a resolution that may properly be moved and is intended to be moved at the meeting. The request may be sent to the company in hard copy form or in electronic form and must be authenticated by the shareholder(s) making it and deposited at the registered office of the company. Besides, in relation to an annual general meeting which a company is required to hold, Section 615 of the Hong Kong Companies Ordinance provide that shareholders representing at least 2.5% of the total voting rights of all the shareholders having a right to vote on the resolution at the annual general meeting or at least 50 shareholders having a right to vote on the resolution at the annual general meeting, may request the company to circulate a notice of the resolution for consideration at the annual general meeting, by sending a request, which must be authenticated by the shareholders making it, in a hard copy form or electronic form. Such request must be deposited at the registered office of the company not later than six weeks before the relevant annual general meeting or if later, when the notice of annual general meeting is despatched.

As a channel to further promote effective communication, the Group maintains a website at http://www.cshldgs.com where the Company's annual and interim reports, notices, announcements and circulars are posted.

A printed copy of the Memorandum and Articles of Association of the Company has been published on the websites of the Company and the Stock Exchange. There had been no changes in the Company's constitutional documents during the year ended 31 December 2016.

Enquiries may be put to the Board through the Company Secretary at Rooms 3206–3210, 32nd Floor, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong.

Environmental, Social and Governance Report

In accordance with Appendix 27 – Environmental, Social and Governance Reporting Guide to the Listing Rules (the "ESG Guide"), the Company presents this Environmental, Social and Governance (the "ESG") Report for the year ended 31 December 2016. This report serves to provide details of the Company's ESG policies and initiatives of its business in investment in securities, trading, money lending and securities brokerage. Information regarding the governance section is set out in the Corporate Governance Report on pages 33 to 42. During the year ended 31 December 2016, the Company has complied with the "comply and explain" provisions set out in the ESG Guide.

The Board of Directors has the overall responsibility for the Company's ESG strategy and reporting in achieving green operations for sustainable development. The management is responsible for monitoring and managing ESG-related risks and the effectiveness of the ESG management systems. In order to determine the ESG reporting scopes, the Company has engaged and discussed with various management personnel and other internal key stakeholders to identify and assess relevant ESG issues to the Company. The summary of material ESG issues, which are covered in this report, are listed below:

ENVIRONMENTAL

Emissions

In the face of challenges of the climate changes, the Group has made efforts to promote and where possible, integrate environmentally friendly business practices into the daily operations. We have performed comprehensive assessments and considered minimizing the potential impact on the environment as one of our most important assessment criteria. We believe that the existing businesses of the Group are not expected to pose a material impact on the environment and the Group has complied with laws and regulations related to air pollution and waste handling.

Use of Resources & the Environment and Natural Resources

Given the nature of the Group's businesses, our operations do not consume a significant amount of resources nor produce a large amount of waste. However, we do acknowledge that our effort in promoting efficiency use of resource could not be ignored. We have, therefore, prepared and introduced policies on efficient use of resources including energy, water and resources we consume in our operations. Practical steps we have taken include issuing notices promoting "green office management" concept to employees, and reminding our staff the use of double-sided printing, energy saving by switching off idle lighting, and using equipment carrying Energy Label issued by the Electrical and Mechanical Services Department.

Further, we have incorporate the factor of the potential impact on the environment and natural resources in business activities planning in such process as selection of suppliers and business partner. We have endeavored to share our views on environmental protection, in particular for the efficient use of resources with our suppliers and business partners in an attempt to raise their awareness.

SOCIAL

Employment and Labour Practices

Employment

The Group aims to provide employees with a respectful and fair working environment through maintaining a sound system of human resources management covering the various aspects such as recruitment, remuneration and separation. We ensure strict compliance with all relevant regulatory standards, particularly the Hong Kong Employment Ordinance.

Environmental, Social and Governance Report

The Group hires employees based on consideration of experience, qualifications and knowledge. An employment contract is required to be signed by the employee before employment to ensure job title, job duties, working hours, holidays, remuneration, termination process and benefits are agreed.

The Group strives to keep optimizing the remuneration and promotion mechanism that enables the employees to share the fruitful achievement with us. The Group motivates employees by promotion and salary increment based on results of annual performance appraisal, and to award double-pay payment and discretionary bonus in addition to basic salary.

Dismissal is conducted with strict compliance with the Employment Ordinance and the requirement as stipulated in the employment contract.

The Group is not labour intensive, and we rely on the efficiency of our teams instead of emphasizing on their working hours. Hence five-day workweek arrangement is adopted to facilitate work-life balance. In additional to all general holidays (including Sundays) as specified in the General Holidays Ordinance, employees are entitled to annual leaves, maternity leaves, paternity leaves, marriage leaves and compassionate leaves with pay. Employees enjoy medical benefits, provident fund scheme and other benefits subject to the Group's policies.

The Group relentlessly optimize the system of human resources management to promote fairness and equality within our business operations, with an objective to ensure that there is no discrimination on the grounds of age, gender, marital status, family status, gender orientation, disability, race, nationality or religion. By internal human resource policy, the above factors are not considered in the decision-making process of human resources matters such as employment, remuneration and promotion.

Health and safety

The majority of the Group's operations are conducted in an office environment, which does not involve heavy machinery or labour intensive routines. We do acknowledge the potential health issues that exist in office settings. Hence we do take measures to preserve our talents from exposure to occupational diseases or injuries, no matter severe or minor. For example, we placed poster provided by Occupational Safety and Health Council regarding information on providing a safe working environment and protecting employees from occupational hazards in an office working environment. The Group adopts a five-day workweek, and motivates our staff to achieve work-life balance.

We ensure full compliance towards Occupational Safety and Health Ordinance and applicable regulations that protected employees from occupation hazards. The Group did not experience any lost days due to injury or work-related fatalities during the reporting period.

We encourage our contractors and business partners in placing great emphasis on health and safety guides in respect of occupational hazards.

Development and training

The Group adopted the notion of improving employees' knowledge and skills for discharging duties at work. We have, for example, provided training in the areas of securities brokerage, commodities trading, and financial analysis for relevant staff. For our securities brokerage business, we have also provided information on anti-money laundering, counter-terrorism financing, risk-based approach for customer due diligence to staff. In respect of our professional staff, updates of regulatory requirements and standards have been made available to them. We have also regularly provided training materials to Directors, further details on this area are stated in the Corporate Governance Report on pages 33 to 42.

Subsidies were given to employees for participation in training sessions which aim at enhancing their job skills. These trainings covered the areas such as management skill and leadership improvement, company's organization strategy and corporate culture, and employee's business knowledge.

In addition to the professional training courses, we do not neglect the opportunities of providing our employees with learning experience gained through work assignments so as to build up their on-going job skills which benefits career development of our employees.

Labour standards

The Group's businesses require high degree of professional expertise instead of extensive manual labour. Hence we do not employ under-age employee and we do not engage in forced labour.

As part of our human resources policy, background check and reference check are conducted concerning the information provided by applicants before hiring. Candidates who do not meet the legal requirements would not be hired. We are in full compliance towards relevant regulations that prohibits child or forced labour.

We have from time to time communicated to our suppliers and business partners our stance on child labour and forced labour. If there is any reporting of such case on our suppliers and business partners, we will conduct investigation in detail and critically reconsider the relationships with the party in question.

Operating Practices

Supply chain management

We convey our standards and expectations in respects such as environment issues and labour practices to suppliers and business partners, with the expectation that they will uphold standards that are similar to our own.

Prior to stepping into contracting stage with our key business partners, we conduct assessment based on a variety of criteria, including attitude towards environmental and social issues, to evaluate the quality as well as its moral standards of our business partners and contractors. Further, management oversees the trading projects with due care in pursuit of mitigating any issues that contradict with our standards on environment and social issues.

Product responsibility

Our primary interaction with the general public is through our securities brokerage business and money lending operations. Other than these businesses, the Group only conduct business with corporations.

Clients' information is handled with strict confidentiality and is only accessable by authorized staff. Confidentiality requirement is documented in the compliance manual which will be signed-off by authorised staff as acknowledgements. The requirement of confidentiality is also specified in the employment contracts. The Group made every effort to comply with the relevant legislation; compliance with relevant laws and regulations that have a significant impact on the Group. We have not received any litigation regarding the health and safety, advertising, labeling and privacy matters.

Anti-Corruption

The Group aims at maintaining high moral standards in the conduct of our business and is committed to prevent bribes, extortion, fraud and money laundering.

The Group has strictly adhered to relevant laws and regulations, including the Prevention of Bribery Ordinance. The Group is committed to prevent bribes, extortion, fraud and money laundering, we have

– established an anti-money laundering and counter-terrorism financing policy for our securities brokerage business; and

– performed assessments on potential clients regarding money laundering and counter-terrorism financing before conducting trades on behalf of them.

In 2016, there was no legal case or dispute in respect of bribery, extortion, fraud or money laundering against our employees and the Group.

COMMUNITY

Community Investment

Our business only involved a very selected and specialized customer base, as such our impact to the general public or the communities are minimal. We do however encourage employees to be a part of their own communities by allowing time for our employees to volunteer their time and skills to contribute to and support the society in pursuit of enriching their knowledge of environmental and social issues.

Deloitte. 德勤

TO THE SHAREHOLDERS OF CHINA STRATEGIC HOLDINGS LIMITED
中策集團有限公司
(Incorporated in Hong Kong with limited liability)

OPINION

We have audited the consolidated financial statements of China Strategic Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 53 to 119, 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 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.

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Fair value on financial instruments in respect of certain unlisted debt and convertible securities	
We identified fair value of financial instruments in respect of unlisted debt securities and convertible securities as a key audit matter due to judgment was exercised in selecting an appropriate valuation technique and assumptions and estimates were used to determine the fair value of certain unlisted debt securities and unlisted convertible securities without quoted price in an active market. As discussed in Notes 22, 27 and 37, the fair value of certain unlisted debt securities included in available-for-sale investments and the fair value of unlisted convertible securities are HK$780,000,000 and HK$69,334,000 as at 31 December 2016, respectively. The fair value of the above unlisted securities were estimated by the management based on the following valuation technique with assumptions and the Group had engaged an independent professional valuer to perform such valuation: • certain unlisted debt securities were estimated based on discounted cash flow analysis with discounted rate determined by reference to the listed bonds in similar rating. • unlisted convertible securities were estimated based on binomial option pricing model with the key inputs of the risk free rate, expected volatility, dividend yield and discount rate by reference to the listed bonds with similar rating.	Our procedures in relation to fair value on financial instruments included: • Obtaining an understanding of the entity's valuation process in selecting valuation model/techniques, adopting assumptions and estimates; • Evaluating the independent external valuer's competence, capabilities and objectivity; • Engaging our internal valuation expert to evaluate the appropriateness of the valuation model adopted and checking its mathematical accuracy; • Evaluating the appropriateness of the key assumptions in the discounted cash flow analysis, including the discount rate; • Evaluating the appropriateness of the key assumptions in the binomial option pricing model, including risk fee rate, expected volatility, dividend yield and discount rate; and • Evaluating the sufficiency of the relevant disclosures of the financial instruments in the financial statements.

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Impairment assessment on loan receivables	
We identified the impairment assessment on loan receivables as a key audit matter due to management judgment was required in making an assessment of the adequacy of the impairment provision for loan receivables rising from the money lending business. As detailed in Note 24 to the consolidated financial statements, the Group's loan receivables as at 31 December 2016 amounted to HK$754,212,000 (2015: HK$480,099,000). In determining the impairment provision of loan receivables, the recoverability of the loan receivables was assessed by management taking into account the credit quality and likelihood of collection.	Our procedures in relation to management's impairment assessment of loan receivables included: • Understanding and testing the entity's key controls on the assessment of the borrowers' creditability, secured assets, guarantee and financial capacity for the repayment before granting the loans; • Understanding and testing the entity's key control on monitoring the recoverability, including the credit quality and likelihood of collection on an individual basis as well as on collective basis, including the Group's past experience of collecting payment of the loan receivables after granting the loans; • Evaluating management's process for reviewing the collectability of loan receivables by reference to the credit quality, likelihood of collection and the settlement record; • Tracing a sample of the settlement during the year to bank receipts; and • Tracing a sample of the post year and subsequent settlements to bank receipts.

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 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 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. 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.

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.

Independent Auditor's Report

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.

The engagement partner on the audit resulting in the independent auditor's report is Mr. Lau Ngai Kee, Ricky.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong, 23 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	5	**270,706**	239,466
Cost of sales		**(81,054)**	(205,874)
Gross profit		**189,652**	33,592
Other income	7	**3,184**	6,476
Other (loss) gain	8	**(47)**	4,506
Selling and distribution costs		**(4,022)**	(1,859)
Administrative expenses		**(68,631)**	(52,069)
Net (loss) gain on financial assets at fair value through profit or loss	9	**(635,753)**	665,601
Gain on disposal of available-for-sale investments		**4,212**	36,955
Finance costs	10	**(6,735)**	(409)
Gain on disposal of subsidiaries	11	**–**	102
(Loss) profit before tax		**(518,140)**	692,895
Income tax credit (expense)	12	**81,270**	(108,539)
(Loss) profit for the year	13	**(436,870)**	584,356
Other comprehensive (expense) income			
Items that may be reclassified subsequently to profit or loss:			
Net fair value (loss) gain on available-for-sale investments		**(8,691)**	56,289
Released on disposal of available-for-sale investments		**(4,212)**	(36,955)
Other comprehensive (expense) income for the year		**(12,903)**	19,334
Total comprehensive (expense) income for the year		**(449,773)**	603,690
(Loss) profit for the year attributable to:			
Owners of the Company		**(436,870)**	584,148
Non-controlling interests		**–**	208
		(436,870)	584,356
Total comprehensive (expense) income for the year attributable to:			
Owners of the Company		**(449,773)**	603,482
Non-controlling interests		**–**	208
		(449,773)	603,690
(Loss) earnings per share attributable to owners of the Company			
– Basic	17	**HK(2.57) cents**	HK5.02 cents

Consolidated Statement of Financial Position

At 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
Non-current assets			
Property, plant and equipment	18	**29,324**	5,087
Prepaid lease payments	19	**2,669**	2,768
Goodwill	20	**4,000**	–
Club debentures	21	**1,928**	628
Available-for-sale investments	22	**922,917**	846,820
Deposit for acquisition of property, plant and equipment	23	**–**	5,193
Loan receivables	24	**135,000**	–
Total non-current assets		**1,095,838**	860,496
Current assets			
Inventories	25	**19,559**	–
Loan receivables	24	**619,212**	480,099
Trade and other receivables	26	**94,690**	114,933
Prepaid lease payments	19	**99**	99
Financial assets at fair value through profit or loss	27	**744,407**	1,713,832
Pledged bank deposits	28	**30,531**	52,342
Bank balances and cash	28	**1,958,861**	371,950
Total current assets		**3,467,359**	2,733,255
Current liabilities			
Trade and other payables	29	**54,137**	9,383
Income tax payable		**23,575**	13,247
Deferred tax liabilities	30	**5,262**	99,000
Bank borrowings	31	**88,077**	101,121
Total current liabilities		**171,051**	222,751
Net current assets		**3,296,308**	2,510,504
Total assets less current liabilities		**4,392,146**	3,371,000
Non-current liability			
Notes payable	32	**1,470,919**	–
Net assets		**2,921,227**	3,371,000

Consolidated Statement of Financial Position

At 31 December 2016

	Note	2016 HK$'000	2015 HK$'000
Capital and reserves			
Share capital	33	**3,012,877**	3,012,877
Reserves		**(91,650)**	358,123
Total equity		**2,921,227**	3,371,000

The consolidated financial statements on pages 53 to 119 were approved and authorised for issue by the Board of Directors on 23 March 2017 and are signed on its behalf by:

Dr. Or Ching Fai
Director

Sue Ka Lok
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

	Attributable to owners of the Company					
	Share capital HK$'000	Investment revaluation reserve HK$'000	(Accumulated losses) retained profits HK$'000	Sub-total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2015	1,505,032	687	(246,046)	1,259,673	871	1,260,544
Profit for the year	–	–	584,148	584,148	208	584,356
Net fair value gain on available-for-sale investments	–	56,289	–	56,289	–	56,289
Released on disposal of available-for-sales investments	–	(36,955)	–	(36,955)	–	(36,955)
Total comprehensive income for the year	–	19,334	584,148	603,482	208	603,690
Disposal of subsidiaries *(Note 11)*	–	–	–	–	(1,079)	(1,079)
Issue of shares *(Note 33)*	1,549,386	–	–	1,549,386	–	1,549,386
Transaction costs attributable to issue of shares *(Note 33)*	(41,541)	–	–	(41,541)	–	(41,541)
At 31 December 2015	3,012,877	20,021	338,102	3,371,000	–	3,371,000
Loss for the year	–	–	(436,870)	(436,870)	–	(436,870)
Net fair value loss on available-for-sale investments	–	(8,691)	–	(8,691)	–	(8,691)
Released on disposal of available-for-sales investments	–	(4,212)	–	(4,212)	–	(4,212)
Total comprehensive expense for the year	–	(12,903)	(436,870)	(449,773)	–	(449,773)
At 31 December 2016	**3,012,877**	**7,118**	**(98,768)**	**2,921,227**	**–**	**2,921,227**

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
Cash flows from operating activities			
(Loss) profit for the year		**(436,870)**	584,356
Adjustments for:			
Finance costs		**6,735**	409
Interest income		**(1,320)**	(3,431)
Amortisation of prepaid lease payments		**99**	99
Depreciation of property, plant and equipment		**1,752**	594
Gain on disposal of subsidiaries	11	**–**	(102)
Gain on disposal of club debenture		**–**	(891)
Gain on disposal of available-for-sale investments		**(4,212)**	(36,955)
Net unrealised loss (gain) on financial assets at fair value through profit or loss		**152,083**	(623,319)
Income tax (credit) expense		**(81,270)**	108,539
Operating cash flows before movements in working capital		**(363,003)**	29,299
(Increase) decrease in inventories		**(19,559)**	552
Decrease (increase) in trade and other receivables		**25,434**	(50,017)
Increase in loan receivables		**(274,113)**	(477,063)
Decrease (increase) in financial assets at fair value through profit or loss		**817,342**	(352,827)
Increase in trade and other payables		**34,730**	2,809
Cash from (used in) operations		**220,831**	(847,247)
Income tax paid		**(2,140)**	(877)
Net cash inflow (outflow) from operating activities		**218,691**	(848,124)
Cash flows from investing activities			
Withdrawal (placement) of pledged bank deposits		**24,889**	(52,342)
Net cash outflow from acquisition of a subsidiary	38	**(6,867)**	–
Net cash outflow from disposal of subsidiaries	11	**–**	(1,579)
Interest received		**1,320**	3,431
Purchase of available-for-sale investments		**(206,000)**	(772,200)
Proceeds from disposal of available-for-sale investments		**121,212**	137,451
Purchase of property, plant and equipment		**(20,777)**	(1,619)
Purchase of club debenture		**(1,300)**	(153)
Proceeds from disposal of club debenture		**–**	1,241
Deposit paid for acquisition of property, plant and equipment		**–**	(5,193)
Net cash outflow from investing activities		**(87,523)**	(690,963)

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
Cash flows from financing activities			
Advances drawn on bill receivables discounted with full recourse	31	**21,893**	101,121
New bank borrowings raised		**159,784**	–
Repayments of bank borrowings		**(194,721)**	–
Net proceeds from issue of notes	32	**1,470,000**	–
Proceeds from issue of shares	33	**–**	1,549,386
Transaction costs attributable to issue of shares	33	**–**	(41,541)
Interest paid		**(1,213)**	(409)
Net cash inflow from financing activities		**1,455,743**	1,608,557
Net increase in cash and cash equivalents		**1,586,911**	69,470
Cash and cash equivalents at the beginning of the year		**371,950**	302,480
Cash and cash equivalents at the end of the year, represented by bank balances and cash		**1,958,861**	371,950

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

1. GENERAL

China Strategic Holdings Limited (the "Company") is a public limited liability company incorporated in Hong Kong and its shares are listed on the Stock Exchange. The registered office of the Company is disclosed in the Corporation Information section of this annual report.

The consolidated financial statements are presented in Hong Kong dollars ("HK$"), which is also the functional currency of the Company and all values are rounded to the nearest thousand (HK$'000) except otherwise indicated.

The Company is an investment holding company. The principal activities of its subsidiaries are set out in Note 44 to the consolidated financial statements.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The Group has applied for the first time in current year the following amendments to HKFRSs issued by the HKICPA.

Amendments to 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 HKAS 27	Equity method in separate financial statements
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment entities: Applying the consolidation exception
Amendments to HKFRS 11	Accounting for acquisitions of interests in joint operations
Amendments to HKFRSs	Annual improvements to HKFRSs 2012 – 2014 cycle

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

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

New and amendments to HKFRSs in issue 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 and the related amendments[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 introduced new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of HKFRS 9:

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

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (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 the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

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

- The new general hedge accounting requirements retain 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 retrospective quantitative effectiveness test has been removed. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

Based on the Group's financial instruments and risk management policies as at 31 December 2016, application of HKFRS 9 in the future may have a material impact on the classification and measurement of the Group's financial assets. The Group's available-for-sale investments, including those currently stated at cost less impairment, will either be measured as fair value through profit or loss or be designated as FVTOCI (subject to fulfillment of the designation criteria).

HKFRS 15 Revenue from contracts with customers

HKFRS 15 was issued which 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.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

HKFRS 15 Revenue from contracts with customers (continued)

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, the standard 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

Under HKFRS 15, an entity recognises revenue when (or as) 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.

In 2016, the HKICPA issued Clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors of the Company anticipate that the application of HKFRS 15 in the future may have an impact on the amounts reported as the timing of revenue recognition may be affected/and the amounts of revenue recognised are subject to variable consideration constraints, and more disclosures relating to revenue is required. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Group performs a detailed review. In addition, the application of HKFRS 15 in the future may result in more disclosures in the consolidated financial statements.

The directors of the Company consider that the performance obligations are similar to the current identification of separate revenue components under HKAS 18, however, the allocation of total consideration to the respective performance obligations will be based on relative fair values which will potentially affect the timing and amounts of revenue recognition. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Group performs a detailed review. In addition, the application of HKFRS 15 in the future may result in more disclosures in the consolidated financial statements.

The directors of the Company anticipate that the application of HKFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Group performs a detailed review.

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

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

HKFRS 16 Leases

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

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

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

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

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

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2016, the Group has non-cancellable operating lease commitments of HK$8,382,000 as disclosed in Note 39. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, and hence the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases upon the application of HKFRS 16. In addition, the application of new requirements may result changes in measurement, presentation and disclosure as indicated above. However, it is not practicable to provide a reasonable estimate of the financial effect until the directors complete a detailed review.

The directors of the Company anticipated that the application of other new and amendments to HKFRSs will have no material impact on the consolidated financial statements of the Group.

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 and by the Hong Kong Companies Ordinance.

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

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

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take 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, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value in use in HKAS 36.

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

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included 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.

Business combinations

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations (continued)

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

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

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations (continued)

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

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

The principal accounting policies are set out below:

Basis of consolidation

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

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.

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

Goodwill

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

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

A cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit (or group of cash-generating units).

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

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Sale of goods

Revenue from sales of goods is recognised when the goods are delivered and titles have passed.

Service income

Service income is recognised when services are provided.

Dividend and interest income

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

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

Arrangement fee income

Arrangement fee income on loan receivables is deferred and recognised as an adjustment to the effective interest rate on the loan receivables.

Commission and handling income

Brokerage commission income is recognised on a trade date basis when the relevant transactions are executed. Handing income arising from brokerage business is recognised when the related services are rendered.

Underwriting fee income

Underwriting fee is recognised when the obligation of underwriting is completed, that is, the economic interests may flow into the Group and the relevant revenue and costs may be measure reliably.

Property, plant and equipment

Property, plant and equipment, including buildings held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress as described below) are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

Depreciation is recognised so as to write off the cost of assets (other than construction in progress) less their residual values over their 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.

Leasing

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

The Group as lessee

Operating lease payments, including the cost of acquiring the 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.

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 and accounted for as property, plant and equipment.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing at 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.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. HK$) using the exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange reserve.

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

Retirement benefit costs

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of inventories are determined on a weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Taxation

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

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from "profit before tax" as reported in the consolidated statement of 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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

Deferred tax

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. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments 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 for the year

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets 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 the following specified categories: financial assets at fair value through profit or loss ("FVTPL"), held-to-maturity investments, available-for-sale ("AFS") financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

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

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

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is, (i) held for trading, (ii) it is designated as at FVTPL, or (iii) contingent consideration that may be paid by an acquirer as part of a business combination to which HKFRS 3 applies.

A financial asset is classified as held for trading if:

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Financial assets at FVTPL (continued)

A financial asset other than a financial asset held for trading or contingent consideration that may be received by an acquirer as part of a business combination may be designated as at FVTPL upon initial recognition if:

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

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

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

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets and is included in the "net gain on financial assets at fair value through profit or loss". Fair value is determined in the manner described in Note 37.

AFS financial assets

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, loan receivables, pledged bank deposits and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment (see the accounting policy in respect of 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, other than those at FVTPL, 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.

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

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

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

For certain categories of financial assets, such as trade and other receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 90 days, observable changes in national or local economic conditions that correlate with default on receivables.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

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

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

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables and loan 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 trade and other receivables and loan receivables are considered uncollectible, they are written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

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

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss 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.

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities and equity instruments

Classification as debt or equity

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.

Financial liabilities

Financial liabilities (including trade and other payables, bank borrowings and notes payable) are subsequently measured at amortised cost, using the effective interest rate method.

Effective interest method

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

Interest expense is recognised on an effective interest basis.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Derecognition (continued)

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

The Group 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 or loss.

Impairment on tangible assets other than goodwill

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.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Equity-settled share-based payment transactions

Share options granted to employees and directors

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share options reserve). For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

At the end of the reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.

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

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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 have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next twelve months from each of the relevant reporting date.

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

Fair value of financial assets and valuation process

As described in Note 37(d), the directors of the Company use their judgment in selecting an appropriate valuation technique for financial assets not quoted in an active market. The fair values of certain unlisted debt securities are estimated based on discounted cash flow analysis with assumptions supported by the listed bonds in similar rating. The fair value of the unlisted convertible securities is estimated based on binomial option pricing model with the key inputs of the risk free rate, expected volatility, dividend yield and discount rate by reference to the listed bond with similar rating. The carrying amount of unlisted debt securities and convertible securities as at 31 December 2016 are HK$780,000,000 (2015: HK$775,320,000) and HK$69,334,000 (2015: nil) respectively. The directors believe that the chosen valuation techniques and assumptions are appropriate in determining the fair value of financial assets.

Impairment loss on trade receivables

The policy for allowance for bad or doubtful debts of the Group is based on the evaluation of collectability of amounts based on management's estimate. In determining whether impairment loss is required, the Group takes into consideration the likelihood of collection of debts on an individual basis as well as on a collective basis, including the Group's past experience of collecting payments. Specific allowance is only made for receivables that are unlikely to be collected and is recognised on the difference between the estimated future cash flow expected to receive discounted using the original interest rate and the carrying value. As at 31 December 2016, the carrying amount of trade receivables net of allowance for doubtful debts is HK$22,586,000 (2015: HK$3,028,000).

Impairment loss on inventories

Inventories are stated at the lower of cost and net realisable value. The estimated net realisable value was arrived based on the management's consideration of obsolete or physically damaged items, life span of inventories, handling and other selling costs. If the estimated net realisable value is lower than cost, a write-down on inventories is recognised in profit or loss. The carrying amount of inventories net of accumulated impairment loss as at 31 December 2016 is HK$19,559,000 (2015: nil).

Impairment loss on loan receivables

Management regularly reviews the recoverability of the loan receivables. Appropriate impairment loss for estimated irrecoverable amount is recognised in profit or loss when there is objective evidence that the amount is not recoverable.

In determining whether allowance for bad and doubtful debts is required, the Group takes into consideration the aged status and likelihood of collection. Specific allowance is only made for the loan receivables that are unlikely to be collected and is recognised on the difference between the carrying amount of loan receivables and the present value of estimated future cash flow discounted using the original effective interest rate. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2016, the carrying amount of loan receivables is HK$754,212,000 (2015: HK$480,099,000).

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

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

Impairment loss on goodwill

Determining whether goodwill is impaired requires an estimation of the recoverable amount of the cash-generating unit to which goodwill has been allocated, which is the higher of the value in use or fair value less costs of disposal. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, or change in facts and circumstances which results in downward revision of future cash, a material impairment loss/further impairment loss may arise. As at 31 December 2016, the carrying amount of goodwill is HK$4,000,000 (2015: nil).

5. REVENUE

An analysis of the Group's revenue for the year is as follows:

	2016	2015
	HK$'000	*HK$'000*
Trading of metal minerals and products	**85,288**	202,241
Sales of electronic components	**985**	7,015
Dividend income from securities and AFS investments	**15,146**	14,768
Interest income from securities and AFS investments	**74,698**	–
Interest income from money lending business	**86,548**	12,525
Arrangement fee income from money lending business	**2,985**	2,917
Commission and handling income from securities brokerage business	**3,245**	–
Underwriting fee income from securities brokerage business	**1,811**	–
	270,706	239,466

6. SEGMENT INFORMATION

The following is an analysis of the Group's revenue and results by operating segments, based on information provided to the chief operating decision maker representing the Board of the Company, for the purpose of allocating resources to segments and assessing their performance. This is also the basis upon which the Group is arranged and organised. During the year, the Group acquired a subsidiary which is principally engaged in securities brokerage business with its result presented as a new reportable and operating segment.

6. SEGMENT INFORMATION (continued)

The Group's reportable and operating segments under HKFRS 8 are as follows:

1. Investment in securities
2. Trading of metal minerals and products and electronic components ("Trading")
3. Money lending
4. Securities brokerage

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

	Investment in securities HK$'000	Trading HK$'000	Money lending HK$'000	Securities brokerage HK$'000	Total HK$'000
Segment revenue					
External sales	89,844	86,273	89,533	5,056	270,706
Results					
Segment results	(549,495)	1,534	87,971	3,417	(456,573)
Other income					589
Central administrative expenses					(55,421)
Finance costs					(6,735)
Loss before tax					(518,140)
Income tax credit					81,270
Loss for the year					(436,870)
Other segment information					
Amortisation of prepaid lease payments	99	–	–	–	99
Depreciation of property, plant and equipment	1,499	4	240	9	1,752
Net loss on financial assets at FVTPL	(635,753)	–	–	–	(635,753)
Gain on disposal of AFS investments	4,212	–	–	–	4,212

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

6. SEGMENT INFORMATION (continued)

Segment revenue and results (continued)

For the year ended 31 December 2015

	Investment in securities *HK$'000*	Trading *HK$'000*	Money lending *HK$'000*	Securities brokerage *HK$'000*	Total *HK$'000*
Segment revenue					
External sales	14,768	209,256	15,442	–	239,466
Results					
Segment results	720,121	2,777	14,436	–	737,334
Gain on disposal of subsidiaries *(Note 11)*					102
Other income					2,907
Other loss					(105)
Central administrative expenses					(46,934)
Finance costs					(409)
Profit before tax					692,895
Income tax expense					(108,539)
Profit for the year					584,356
Other segment information					
Amortisation of prepaid lease payments	99	–	–	–	99
Depreciation of property, plant and equipment	580	2	12	–	594
Net gain on financial assets at FVTPL	665,601	–	–	–	665,601
Gain on disposal of AFS investments	36,955	–	–	–	36,955

The accounting policies of the operating segments are the same as the Group's accounting policies described in Note 3. Segment (loss) profit represents the loss incurred/profit earned by each segment without allocation of gain on disposal of subsidiaries, certain other income, certain other loss, central administrative expenses, finance costs and income tax credit (expense).

6. SEGMENT INFORMATION (continued)

Segment assets and liabilities

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

	2016	2015
	HK$'000	*HK$'000*
Segment assets		
Investment in securities	**2,491,717**	2,802,255
Trading	**808,753**	223,120
Money lending	**757,938**	483,073
Securities brokerage	**78,597**	–
Total segment assets	**4,137,005**	3,508,448
Property, plant and equipment	**29,324**	5,087
Prepaid lease payments	**2,768**	2,867
Bank balances and cash	**384,095**	66,351
Other unallocated assets	**10,005**	10,998
Consolidated assets	**4,563,197**	3,593,751
Segment liabilities		
Investment in securities	**78,945**	106,514
Trading	**39,166**	102,387
Money lending	**9,608**	1,128
Securities brokerage	**24,119**	–
Total segment liabilities	**151,838**	210,029
Other payables	**11,975**	8,017
Income tax payable	**7,238**	4,705
Notes payable	**1,470,919**	–
Consolidated liabilities	**1,641,970**	222,751

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

- all assets are allocated to operating segments other than property, plant and equipment, prepaid lease payments, certain bank balances and cash and certain other assets; and
- all liabilities are allocated to operating segments other than certain other payables, certain income tax payable and notes payable.

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For the year ended 31 December 2016

6. SEGMENT INFORMATION (continued)

Revenue from major products and services

The Group's revenue is arising from investment in securities, trading, money lending and securities brokerage businesses.

Geographical information

The Group's operations are located in the People's Republic of China (the "PRC") and Hong Kong.

Information about the Group's revenue from external customers by geographical location of the customers is presented based on the location of the customers. Information about the Group's non-current assets is presented based on the geographical location of the assets.

	Revenue from external customers Year ended 31 December		Non-current assets *(Note)* As at 31 December	
	2016	2015	**2016**	2015
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
The PRC	**61,879**	202,241	**3,727**	3,894
Hong Kong	**184,433**	37,225	**165,194**	9,782
South America	**24,394**	–	**–**	–
	270,706	239,466	**168,921**	13,676

Note: Non-current assets excluded AFS investments and goodwill.

Information about major customers

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

	For the year ended 31 December	
	2016	2015
	HK$'000	*HK$'000*
Customer A	**–**[1]	84,567
Customer B	**–**[1]	63,112
Customer C	**–**[1]	34,807
Customer D	**27,417**	–[1]

[1] No revenue generated from the customers during the year.

7. OTHER INCOME

	2016	2015
	HK$'000	*HK$'000*
Bank interest income	**1,320**	3,431
Commission income from trading	**917**	1,996
Gain on disposal of club debenture	**–**	891
Others	**947**	158
	3,184	6,476

8. OTHER (LOSS) GAIN

	2016	2015
	HK$'000	*HK$'000*
Exchange (loss) gain, net	**(47)**	4,506

9. NET (LOSS) GAIN ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2016	2015
	HK$'000	*HK$'000*
Net unrealised (loss) gain on financial assets at FVTPL	**(152,083)**	623,319
Net realised (loss) gain on sales of financial asset at FVTPL	**(483,670)**	42,282
	(635,753)	665,601

10. FINANCE COSTS

	2016	2015
	HK$'000	*HK$'000*
Interest on advances drawn on bill receivables discounted with full recourse *(Note 26)*	**652**	409
Interest on bank borrowings	**561**	–
Interest on notes payable *(Note 32)*	**5,522**	–
	6,735	409

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For the year ended 31 December 2016

11. GAIN ON DISPOSAL OF SUBSIDIARIES

For the year ended 31 December 2015

On 19 June 2015, the Group entered into a sale and purchase agreement with an independent third party to dispose of the entire equity interest of a group of subsidiaries which was mainly engaged in money lending business previously. The disposal was completed on the same date.

The net assets of the subsidiaries being disposed of at the date of disposal was determined as follows:

	HK$'000
Net assets disposed of:	
Bank balances and cash	2,854
Other payables	(83)
Income tax payables	(519)
	2,252
Non-controlling interests	(1,079)
Gain on disposal of subsidiaries	102
Net proceeds received from disposal of subsidiaries	1,275
Satisfied by:	
Cash consideration	1,275
Net cash outflow from disposal of subsidiaries:	
Cash consideration received	1,275
Bank balances and cash disposed of	(2,854)
	(1,579)

12. INCOME TAX (CREDIT) EXPENSE

	2016 HK$'000	2015 HK$'000
Tax (credit) charge comprises:		
Current tax		
– Hong Kong Profits Tax	**12,600**	10,159
Overprovision in prior years		
– Hong Kong Profits Tax	**(132)**	(620)
	12,468	9,539
Deferred tax *(Note)*	**(93,738)**	99,000
Income tax (credit) expense recognised in profit or loss	**(81,270)**	108,539

Note: Deferred tax arising from the temporary difference related to net unrealised gain on financial assets at FVTPL. The reversal of deferred taxation arising from the disposal of or reduction of fair value of the financial assets at FVTPL with net unrealised gain recorded in prior years.

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

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

	2016 HK$'000	2015 HK$'000
(Loss) profit before tax	**(518,140)**	692,895
Tax at the domestic income tax rate of 16.5%	**(85,493)**	114,328
Tax effect of expenses not deductible for tax purpose	**326**	–
Tax effect of income not taxable for tax purpose	**(28,541)**	(11,180)
Overprovision in prior years	**(132)**	(620)
Tax effect of tax loss not recognised	**32,980**	6,269
Utilisation of tax losses previously not recognised	**(410)**	(258)
Income tax (credit) expense for the year	**(81,270)**	108,539

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

13. (LOSS) PROFIT FOR THE YEAR

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

	2016	2015
	HK$'000	*HK$'000*
Staff costs		
– directors' emoluments *(Note 14)*	**20,885**	20,612
– other staff salaries, wages and other benefits	**12,704**	9,565
– retirement benefit schemes contributions, excluding directors	**644**	588
Total staff costs	**34,233**	30,765
Auditor's remuneration	**1,481**	1,418
Amortisation of prepaid lease payments	**99**	99
Depreciation of property, plant and equipment	**1,752**	594
Cost of inventories recognised as expense	**81,054**	205,874

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

14. DIRECTORS' AND CHIEF EXECUTIVE OFFICER'S EMOLUMENTS

The emoluments paid or payable to each of the eight (2015: eight) directors, disclosed pursuant to the applicable Listing Rules and Companies Ordinance, were as follows:

		2016					2015				
	Notes	Fee HK$'000	Salaries and other benefits HK$'000	Retirement benefit scheme contributions HK$'000	Discretionary bonus HK$'000	Total HK$'000	Fee HK$'000	Salaries and other benefits HK$'000	Retirement benefit scheme contributions HK$'000	Discretionary bonus HK$'000	Total HK$'000
Executive directors											
– Dr. Or Ching Fai		–	11,000	–	4,500	15,500	–	10,400	–	4,000	14,400
– Mr. Sue Ka Lok		–	1,550	127	700	2,377	–	1,430	72	1,000	2,502
– Mr. Chow Kam Wah		–	1,100	18	245	1,363	–	1,040	18	350	1,408
– Ms. Lee Chun Yeung, Catherine	(i)	–	1,038	54	30	1,122	–	1,014	51	39	1,104
– Mr. Hui Richard Rui	(ii)	–	120	3	–	123	–	780	18	–	798
		–	14,808	202	5,475	20,485	–	14,664	159	5,389	20,212
Independent non-executive directors											
– Ms. Ma Yin Fan		150	–	–	–	150	150	–	–	–	150
– Mr. Chow Yu Chun, Alexander		150	–	–	–	150	150	–	–	–	150
– Mr. Leung Hoi Ying		100	–	–	–	100	100	–	–	–	100
		400	–	–	–	400	400	–	–	–	400
Total		400	14,808	202	5,475	20,885	400	14,664	159	5,389	20,612

The payment of discretionary bonus to executive directors was made under the recommendation of the Remuneration Committee and was at the discretion of the Board, determined with reference to the director's performance and the Group's performance for the year.

Dr. Or Ching Fai is also the Chairman and the Chief Executive Officer of the Company and his emoluments disclosed above include those for services rendered by him as the Chairman and the Chief Executive Officer.

The executive directors' emoluments shown above were mainly for their services in connection with the management of the affairs of the Company and subsidiaries of the Group. The independent non-executive directors' emoluments shown above were mainly for their services as directors of the Company.

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For the year ended 31 December 2016

14. DIRECTORS' AND CHIEF EXECUTIVE OFFICER'S EMOLUMENTS (continued)

Notes:

(i) Appointed on 2 February 2015

(ii) Resigned on 1 March 2016

During the year, no emoluments were paid by the Group to any directors as an inducement to join or upon joining the Group or as compensation for loss of office. No directors waived any emoluments for the both years.

15. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, four (2015: four) of them were executive directors of the Company whose emoluments are included in Note 14 above. The emolument of the remaining one (2015: one) individual was as follows:

	2016	2015
	HK$'000	*HK$'000*
Salaries and other benefits	**1,040**	1,105
Retirement benefit scheme contributions	**52**	38
	1,092	1,143

The emolument was within the following band:

	Number of individuals	
	2016	2015
HK$1,000,001 – HK$1,500,000	**1**	1

16. DIVIDENDS

No dividend was paid or proposed for the years ended 31 December 2016 and 2015, nor has any dividend been proposed since the end of the reporting periods.

17. (LOSS) EARNINGS PER SHARE ATTRIBUTABLE TO OWNERS OF THE COMPANY

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

	2016	2015
	HK$'000	*HK$'000*
(Loss) earnings:		
(Loss) profit for the year attributable to owners of the Company for the purpose of calculating basic (loss) earnings per share	**(436,870)**	584,148

	2016	2015
	'000	*'000*
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic (loss) earnings per share *(Note)*	**16,987,714**	11,628,019

Note: The weighted average number of ordinary shares for the purpose of calculating basic earnings per share for the year ended 31 December 2015 has been adjusted for the effect of the rights issue completed in August 2015 (Note 33).

Diluted (loss) earnings per share for the years ended 31 December 2016 and 2015 are not presented as there were no dilutive potential ordinary shares in issue during both years.

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18. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Furniture and fixtures	Machinery and equipment	Motor vehicles	Vessels	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost						
At 1 January 2015	2,125	3,890	216	1,768	–	7,999
Additions	–	165	37	1,490	–	1,692
At 31 December 2015	2,125	4,055	253	3,258	–	9,691
Acquired on acquisition of subsidiary	–	19	–	–	–	19
Additions	–	194	78	–	25,698	25,970
At 31 December 2016	**2,125**	**4,268**	**331**	**3,258**	**25,698**	**35,680**
Accumulated depreciation and impairment						
At 1 January 2015	931	2,952	80	47	–	4,010
Provided for the year	68	142	19	365	–	594
At 31 December 2015	999	3,094	99	412	–	4,604
Provided for the year	68	180	27	407	1,070	1,752
At 31 December 2016	**1,067**	**3,274**	**126**	**819**	**1,070**	**6,356**
Carrying values						
At 31 December 2016	**1,058**	**994**	**205**	**2,439**	**24,628**	**29,324**
At 31 December 2015	1,126	961	154	2,846	–	5,087

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

Buildings	Over the shorter of the term of the lease of 40 – 50 years or 2.5%
Furniture and fixtures	5% – 25%
Machinery and equipment	10% – 20%
Motor vehicles	12.5% – 25%
Vessels	10%

At 31 December 2016 and 2015, the buildings of the Group are situated on land in the PRC.

19. PREPAID LEASE PAYMENTS

	2016	2015
	HK$'000	*HK$'000*
Analysed for reporting purpose as:		
Current asset	**99**	99
Non-current asset	**2,669**	2,768
	2,768	2,867

The Group's prepaid lease payments represent payments for land use rights in the PRC.

20. GOODWILL

For the purpose of impairment testing, goodwill, set out in Note 38, is allocated to the securities brokerage business, being the Group's cash generating unit identified according to segment information.

The recoverable amount of the securities brokerage business was based on its value in use and was determined by the management of the Group. The calculation uses cash flow projections based on financial budgets approved by management covering a five-year period, and at discount rate of 14.26%. Cash flows after the five-year period were assumed to be no growth in considering the economic condition of the market.

The key assumption for the value in use calculation includes profit forecast. Such estimation is based on the historical performance and management's expectation for the market development of securities brokerage business in the current economic environment. Management believes that any reasonably possible change in the assumption would not cause the aggregate carrying amount of the goodwill exceeds the aggregate recoverable amount of it. Therefore no impairment was made for the year ended 31 December 2016.

21. CLUB DEBENTURES

The club debentures represent the club membership of three (2015: two) private clubs in Hong Kong. The directors are of opinion that it is not necessary to make any impairment on the club debentures since the quoted prices are higher than their carrying values.

22. AVAILABLE-FOR-SALE INVESTMENTS

AFS investments comprise:

	2016 **HK$'000**	2015 HK$'000
Unlisted investments, at fair value:		
– Debt securities *(Note (i))*	**827,250**	775,320
Listed investments, at fair value:		
– Equity securities listed in Hong Kong *(Note (ii))*	**56,485**	71,500
– Debt securities listed overseas *(Note (iii))*	**39,182**	–
	922,917	846,820

Notes:

(i) During the year ended 31 December 2016, the Group invested HK$50,000,000 to subscribe at par bonds issued by an insurance company listed in Hong Kong.

Included in unlisted debt securities, the Group also invested in a 9% perpetual securities in the aggregate principal amount of US$100,000,000 (equivalent to HK$780,000,000 (2015: HK$772,200,000)) issued by a listed company in Hong Kong.

(ii) During the year ended 31 December 2015, the Group disposed part of equity securities listed in Hong Kong with cumulative gain of HK$36,955,000 previously accumulated in the investment revaluation reserve, the cumulative gain was subsequently reclassified to profit or loss accordingly. There was no disposal of such equity securities during the year ended 31 December 2016.

(iii) During the year ended 31 December 2016, the Group invested approximately HK$156,000,000 to subscribe at par bonds in the aggregate principal amount of US$20,000,000 issued by a blue-chip international bank listed in Hong Kong and subsequently divested part of such debt securities in the aggregate principal amount of approximately HK$117,000,000 (equivalent to US$15,000,000) with cumulative gain of approximately HK$4,212,000 previously accumulated in the investment revaluation reserve, the cumulative gain was subsequently reclassified to profit or loss accordingly.

At the end of the reporting period, AFS investments are stated at fair values. The listed equity securities and listed debt securities were determined based on the quoted market closing price available on the Stock Exchange or other recognised stock exchanges, whereas the fair values of unlisted debt securities were determined based on cash flows discounted using a rate based on the market interest rate and the risk premium specific to the unlisted securities/quoted market price in the over-the-counter market.

As at 31 December 2016, debt securities of HK$86,432,000 (2015: nil) have been pledged as security.

23. DEPOSIT FOR ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT

At 31 December 2015, the amounts represented the deposits paid for the acquisition of a vessel and a motor vehicle respectively and the related capital commitments are disclosed in Note 41, such additions have been completed during the year ended 31 December 2016.

24. LOAN RECEIVABLES

	2016	2015
	HK$'000	*HK$'000*
Fixed-rate loan receivables	**754,212**	480,099
Analysed as:		
Current portion	**619,212**	480,099
Non-current portion	**135,000**	–
	754,212	480,099

During the year ended 31 December 2016, the range of interest rate on the Group's loan receivables is 8% to 36% per annum (2015: 10% to 24% per annum).

Before granting loans to outsiders, the Group uses internal credit assessment process to assess the potential borrower's credit quality and defines its credit limits granted to the borrowers. The credit limits attributed to the borrowers are reviewed by the management regularly.

The Group has a policy for assessing the impairment on loan receivables on an individual basis. The assessment also includes evaluation of collectability and ageing analysis of accounts and on management's judgment, including the current creditworthiness, collateral and past collection history of each borrower.

In determining the recoverability of the loan receivables, the Group considers any change in the credit quality of the loan receivables from the date of credit was initially granted up to the reporting date. This includes assessing the credit history of the borrowers, such as financial difficulties or default in payments, and current market conditions.

The loan receivables included a total carrying amount of HK$754,212,000 (2015: HK$480,099,000) which are neither past due nor impaired at the reporting date, for which the Group believes that the amounts are considered recoverable given the fair values of the pledged securities or properties are sufficient to cover the entire balance on individual basis.

At the end of each reporting date, the Group's loan receivables were individually assessed for impairment. As at 31 December 2016 and 2015, no impairment loss was identified.

24. LOAN RECEIVABLES (continued)

The Group has concentration of credit risk as 66% (2015: 75%) of the total loans as at 31 December 2016 was due from three borrowers (2015: three). The balances due from these three borrowers (2015: three) is in an aggregate amount of HK$495,152,000 (2015: HK$358,752,000) as at 31 December 2016, which is neither past due nor impaired, is fully secured by pledged properties and securities with fair values of HK$1,158,500,000 (2015: HK$761,332,000). The Group believes that the amounts are considered recoverable given the fair values of the pledged securities are sufficient to cover the entire balance.

No ageing analysis is disclosed, as in the opinion of the directors of the Company, the ageing analysis does not give additional value in view of the nature of business of money lending.

25. INVENTORIES

	2016 ***HK$'000***	2015 *HK$'000*
Electronic components	**19,559**	–

26. TRADE AND OTHER RECEIVABLES

	2016 ***HK$'000***	2015 *HK$'000*
Trade receivables	**22,586**	3,028
Bill receivables	**–**	387
Bill receivables discounted with full recourse	**21,893**	101,121
Interest receivables	**35,308**	150
Other receivables	**14,903**	10,247
	94,690	114,933

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26. TRADE AND OTHER RECEIVABLES (continued)

The Group normally allows credit period for trade customers ranging from 30 days to 180 days (2015: 30 days to 180 days). The following is an aged analysis of trade and bill receivables, net of allowance for doubtful debts, presented based on the invoice date, which approximated the respective revenue recognition dates, at the end of the reporting period:

	2016	2015
	HK$'000	*HK$'000*
0 – 90 days	**43,871**	48,020
91 – 180 days	**–**	54,575
Over 180 days	**608**	1,941
	44,479	104,536

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines its credit limit. Credit sales are made to customers with appropriate credit history. Credit limits attributed to customers are reviewed regularly.

At the end of the reporting periods, the directors considered the trade and bill receivables which were neither past due nor impaired related to customers were of good credit quality.

Bill receivables discounted with full recourse

The amounts represent bill receivables discounted to bank with full recourse with a maturity period of less than 180 days (2015: 180 days). The Group recognises the full amount of the discount proceeds as liabilities as set out in Note 31.

The following were the Group's financial assets as at 31 December 2016 and 2015 that were transferred to bank by discounting those receivables on a full recourse basis. As the Group has not transferred the significant risks and rewards relating to these receivables, it continues to recognise the full carrying amount of the receivables and has recognised the cash received on the transfer as a secured borrowing (Note 31). These financial assets are carried at amortised cost in the Group's consolidated statement of financial position.

	2016	2015
	HK$'000	*HK$'000*
Carrying amount of transferred assets	**21,893**	101,121
Carrying amount of associated liabilities	**(21,893)**	(101,121)
Net position	**–**	–

26. TRADE AND OTHER RECEIVABLES (continued)

Included in other receivables are unrestricted deposits of approximately HK$4,198,000 (2015: HK$4,647,000) placed with securities brokers for trading securities in Hong Kong. The remaining balance of other receivables represents mainly tax reserve certificate purchased, prepayment and deposit for office use.

The amounts of the Group's trade and other receivables denominated in currencies other than functional currencies of the Group are set out below:

	2016	2015
	HK$'000	*HK$'000*
United States dollars ("US$")	**22,500**	104,536

27. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2016	2015
	HK$'000	*HK$'000*
Unlisted investments, at fair value:		
– Debt securities *(Note (i))*	**9,733**	20,000
– Convertible securities *(Note (ii))*	**69,334**	–
Listed investments, at fair value:		
– Equity securities listed in Hong Kong *(Note (iii))*	**665,340**	1,693,832
	744,407	1,713,832

Notes:

(i) The fair values of the unlisted debt securities were determined based on the quoted market prices in the over-the-counter market.

(ii) The fair value of unlisted convertible securities was determined based on some key parameters of risk free rate, expected volatility, dividend yield and discount rate by reference to the listed bonds with similar rating.

(iii) The fair values of the listed equity securities were determined based on the quoted market closing prices available on the Stock Exchange.

At 31 December 2016 and 2015, no financial assets at FVTPL have been pledged as security.

28. BANK BALANCES AND CASH/PLEDGED BANK DEPOSITS

Bank balances and cash comprise cash and short-term bank deposits with an original maturity of three months or less held by the Group. The amounts carry interest ranging from 0.01% to 1.19% (2015: 0.01% to 0.60%) per annum.

The amounts of the Group's bank balances and cash denominated in currencies other than functional currencies of the Group are set out below:

	2016	2015
	HK$'000	*HK$'000*
RMB	**394**	–
US$	**46,102**	60,981

Pledged bank deposits represents deposits pledged to banks to secure the banking facilities granted to the Group. Deposit amounting to HK$27,451,000 (2015: HK$27,332,000) has been pledged to a bank to comply with the minimum deposit requirement for the undrawn credit facilities on issuance of letters of credit. Deposit amounting to HK$3,080,000 (2015: nil) has been pledged to another bank to secure the credit facility for securities brokerage settlement. No deposit (2015: HK$25,010,000) has been pledged to bank to secure the letters of credit issued. The pledged bank deposits will be released upon settlement of relevant letters of credit and therefore classified as a current asset.

29. TRADE AND OTHER PAYABLES

	2016	2015
	HK$'000	*HK$'000*
Trade payables	**27,883**	–
Accrued charges and other payables	**21,651**	9,383
Interest payables	**4,603**	–
	54,137	9,383

Include in trade and other payables are trade payables of HK$27,883,000 (2015: nil). The following is an aged analysis of trade payables, presented based on the invoice date, at the end of the reporting period:

	2016	2015
	HK$'000	*HK$'000*
0 – 90 days	**27,883**	–

The average credit period is within 30 days for both years.

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30. DEFERRED TAXATION

The followings are the major deferred tax liabilities and movement thereon during the current year:

	Temporary difference related to net unrealised gain on financial assets at FVTPL
	HK$'000
At beginning of year	99,000
Credited to the profit or loss *(Note 12)*	(93,738)
At 31 December 2016	**5,262**

At 31 December 2016, the Group have unused tax losses arising in Hong Kong of approximately HK$434,024,000 (2015: HK$236,630,000), subject to the agreement by the Hong Kong Inland Revenue Department, that are available indefinitely for offset against future profits of the companies in which the loses arose. No deferred tax asset has been recognised in respect of the unused tax losses due to the unpredictability of future profit streams. The tax losses may be carried forward indefinitely.

31. BANK BORROWINGS

	2016	2015
	HK$'000	*HK$'000*
Advances drawn on bill receivables discounted with full recourse *(Note (i))*	**21,893**	101,121
Short-term secured bank borrowing *(Note (ii))*	**66,184**	–
	88,077	101,121

Notes:

(i) The amount represents the Group's borrowings secured by the bill receivables discounted to bank with full recourse (Note 26), and the amount is repayable within one year.

(ii) During the current year, the Group obtained secured bank borrowings of approximately HK$66,184,000 (2015: nil) which carry interest at variable rates and are repayable within one year.

32. NOTES PAYABLE

The movement of the unsecured notes payable for the year is set out below:

	2016 HK$'000	2015 HK$'000
Issue of notes payable	1,470,000	–
Effective interest charged *(Note 10)*	5,522	–
Interest payable	(4,603)	–
At the end of the year	1,470,919	–
Repayable as follows:		
In the second year	1,470,919	–

The Company issued 2-year unsecured notes with nominal value of HK$1,500,000,000 in December 2016 which are denominated in Hong Kong dollars. The interest for the notes is 7% per annum and 8% per annum for the first and second year respectively. The effective interest rate of the notes is 8.57% per annum.

33. SHARE CAPITAL OF THE COMPANY

	Number of shares '000	Share capital HK$'000
Issued and fully paid:		
At 1 January 2015		
– Ordinary shares with no par value	6,658,476	1,505,032
Issue of shares *(Note)*	10,329,238	1,549,386
Transaction costs attributable to issue of shares *(Note)*	–	(41,541)
At 31 December 2015 and **31 December 2016**	16,987,714	3,012,877

Notes:

On 20 August 2015, the Company completed an issue and allotment of 3,329,237,945 rights shares at a subscription price of HK$0.15 per rights share. The net proceeds from the rights issue, after deducting directly attributable costs of HK$13,389,000, were approximately HK$485,997,000. Details of which were set out in the announcement of the Company dated 20 May 2015, circular of the Company dated 29 June 2015 and prospectus of the Company dated 29 July 2015.

On the same date, the Company completed a placing of 7,000,000,000 new shares under the specific mandate at a placing price of HK$0.15 per placing share. The net proceeds from the placing, after deducting directly attributable costs of HK$28,152,000, were approximately HK$1,021,848,000. Details of which were set out in the announcement of the Company dated 20 May 2015 and circular of the Company dated 29 June 2015.

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34. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	2016 *HK$'000*	2015 *HK$'000*
Non-current assets		
Property, plant and equipment	**1,939**	2,054
Prepaid lease payments	**2,669**	2,768
Club debentures	**475**	475
Total non-current assets	**5,083**	5,297
Current assets		
Prepaid lease payments	**99**	99
Amounts due from subsidiaries	**3,994,441**	2,712,305
Other receivables, deposits and prepayments	**5,868**	1,084
Bank balances and cash	**382,537**	62,788
Total current assets	**4,382,945**	2,776,276
Current liabilities		
Accrued charges and other payables	**10,483**	5,809
Amounts due to subsidiaries	**191,549**	118,433
Income tax payable	**7,238**	4,705
Total current liabilities	**209,270**	128,947
Net current assets	**4,173,675**	2,647,329
Total assets less current liabilities	**4,178,758**	2,652,626
Non-current liability		
Notes payable	**1,470,919**	–
Net assets	**2,707,839**	2,652,626
Capital and reserves		
Share capital *(Note 33)*	**3,012,877**	3,012,877
Reserves *(Note)*	**(305,038)**	(360,251)
Total equity	**2,707,839**	2,652,626

The Company's statement of financial position was approved and authorised for issue by the Board of Directors on 23 March 2017 and is signed on its behalf by:

Dr. Or Ching Fai	**Sue Ka Lok**
Director	*Director*

34. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (continued)

Note: Movements in the Company's reserves

	Accumulated losses HK$'000
At 1 January 2015	(390,742)
Profit for the year and total comprehensive income for the year	30,491
At 31 December 2015	(360,251)
Profit for the year and total comprehensive income for the year	55,213
At 31 December 2016	**(305,038)**

35. SHARE-BASED PAYMENT TRANSACTIONS

Share option scheme

The existing share option scheme of the Company (the "Share Option Scheme") was adopted by the Company at the annual general meeting of the Company held on 10 June 2011. Unless otherwise cancelled or amended, the Share Option Scheme will be valid and effective for a period of ten years commencing on the date of adoption. The purpose of the Share Option Scheme is to enable the Company to grant options to participants as incentives or rewards for their contribution to the Company and/or the subsidiaries of the Company. Eligible participants of the Share Option Scheme include any employee (whether full time or part time), executives or officers of the Company or any of the subsidiaries of the Company (including executive and non-executive directors of the Company) and any business consultants, agents, financial or legal advisers who the Board considers, in its sole discretion, will contribute or have contributed to the Company or any of the subsidiaries of the Company. The offer of a grant of share options may be accepted until the 21st days inclusive of, and from, the date of grant, provided that no such offer shall be open for acceptance after the expiry of the period of ten years commencing on the adoption date of the Share Option Scheme or after the Share Option Scheme has been terminated. The amount payable by each grantee of options to the Company on acceptance of the offer for the grant of options is HK$1.00.

The subscription price for the shares on the exercise of options under the Share Option Scheme shall be a price as determined by the Board in its absolute discretion at the time of the grant of the relevant option (and shall be stated in the letter containing the offer of the grant of the option) but in any case the subscription price shall not be less than the higher of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a trading day; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the 5 trading days immediately preceding the date of grant; or (iii) the nominal value of a share (if any). The exercise period of the share options granted is determinable by the Board but in any event, not longer than ten years from the date of grant.

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35. SHARE-BASED PAYMENT TRANSACTIONS (continued)

Share option scheme (continued)

The total number of shares issued and to be issued upon exercise of the options granted to each participant, together with all options granted and to be granted to him/her under any other share option scheme(s) of the Company within the 12-month period immediately preceding the proposed date of grant (including exercised, cancelled and outstanding options) shall not exceed 1% of the total number of the shares in issue as at the proposed date of grant. Any further grant of options to a participant in excess of the 1% limit shall be subject to the shareholders' approval of the Company with such participant and his/her associates abstaining from voting.

The limit on the total number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme(s) of the Company (excluding lapsed and cancelled options) must not exceed 30% of the total number of the shares in issue from time to time. In addition, the total number of the shares which may be issued upon exercise of all options to be granted under the Share Option Scheme, together with all options to be granted under any other share option scheme(s) of the Company (excluding lapsed options), must not represent more than 10% of the total number of the shares in issue as at the date of approval of the Share Option Scheme (the "Scheme Mandate Limit") or as at the date of the approval of the refreshed Scheme Mandate Limit as the case maybe.

No share options has been granted under the Share Option Scheme since its adoption and up to the date of this annual report. In the annual general meeting of the Company held on 28 June 2016, the shareholders of the Company approved the refreshment of the Scheme Mandate Limit (the "Scheme Mandate Limit Refreshment Approval"). The total number of shares of the Company available for issue under the Share Option Scheme is 1,698,771,383 shares, representing 10% of the issued shares of the Company as at the date of the Scheme Mandate Limit Refreshment Approval and the issued shares of the Company as at the date of this annual report.

36. CAPITAL RISK MANAGEMENT

The Group's objectives when managing capital are 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 debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debts, which include bank borrowings as disclosed in Note 31, notes payable as disclosed in Note 32 and equity attributable to owners of the Company, comprising issued share capital, reserves and accumulated losses/retained profits.

The directors of the Company review the capital structure regularly. As part of this review, the directors of the Company consider the cost of capital and other sources of funds other than issuance of shares, including bank borrowings and notes payable. Based on recommendations of the directors of the Company, the Group will balance its overall capital structure through the payment of dividends, new share issues, raising or repayment of borrowings.

37. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

	2016 HK$'000	2015 HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**2,830,221**	1,013,724
AFS investments	**922,917**	846,820
FVTPL – Held for trading	**744,407**	1,713,832
Financial liabilities		
Amortised cost	**1,591,520**	101,517

b. Statement of profit or loss and other comprehensive income

	2016 HK$'000	2015 HK$'000
Financial assets at FVTPL		
– Held for trading		
Fair value changes	**(635,753)**	665,601

c. Financial risk management objectives and policies

The management of the Group monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk (including interest rate risk, price risk and and foreign currency risk), credit risk and liquidity risk.

There has been no change to the types of the Group's exposure in respect of financial instruments or the manner in which it manages and measures the risks.

37. FINANCIAL INSTRUMENTS (continued)

c. Financial risk management objectives and policies (continued)

Market risk

(i) *Interest rate risk management*

The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk. However, the management of the Group will consider hedging significant interest rate risk exposure if the need arises.

The Group is exposed to fair value interest rate risk in relation to debt securities classified as AFS investments and financial assets at FVTPL as set out in Notes 22 and 27.

The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances and bank borrowings. It is the policy of the Group to keep its borrowings at floating rate of interests so as to minimise the fair value interest rate risk. Sensitivity analysis was prepared, except for bank balances, since the directors consider the amount involved is not significant.

The exposures of the Group to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note. The cash flow interest rate risk of the Group is mainly concentrated on the fluctuation of London Interbank Offered Rate arising from bank borrowings.

Sensitivity analysis for interest rate risk

The sensitivity analysis below has been determined based on the exposure to interest rates for the bank borrowings at the end of the reporting period. The analysis is prepared assuming the amounts outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, loss after tax for the year ended 31 December 2016 of the Group would increase/decrease by HK$368,000 (2015: profit after tax would decrease/increase by HK$422,000) as a result of changes in interest rate of the bank borrowings.

In management's opinion, the above sensitivity analysis is for illustrative purpose only and is unrepresentative of the inherent interest rate risk facing by the Group as the year end exposure does not reflect the exposure during the year.

37. FINANCIAL INSTRUMENTS (continued)

c. Financial risk management objectives and policies (continued)

Market risk (continued)

(ii) Price risk management

The Group is exposed to equity and other price risks through its investments in AFS investments and financial assets at FVTPL. The management manages this exposure by maintaining a portfolio of investments with different risks. The Group's equity and other price risks are mainly concentrated on listed equity securities and unlisted debt securities.

The sensitivity analyses below have been determined based on the exposure to equity price risks at the reporting date. For sensitivity analysis purpose, the sensitivity rate is 10% (2015: 10%) in the current year.

If the prices of the respective listed equity securities had been 10% (2015: 10%) higher/lower:

- loss after tax for the year ended 31 December 2016 would decrease/increase by HK$55,556,000 (2015: profit after tax would increase/decrease by HK$141,435,000) as a result of the changes in fair value of listed equity securities; and

- total comprehensive expense for the year ended 31 December 2016 would decrease/increase by HK$5,649,000 (2015: total comprehensive income would increase/decrease by HK$7,150,000) as a result of the changes in fair value of AFS investments.

The Group's sensitivity to equity price risks decreased during the year was mainly due to the decrease in the investment in equity securities.

In management's opinion, the above sensitivity analysis is for illustrative purpose only and is unrepresentative of the inherent equity price risk facing by the Group as the year end exposure does not reflect the exposure during the year.

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37. FINANCIAL INSTRUMENTS (continued)

c. Financial risk management objectives and policies (continued)

Market risk (continued)

(iii) Foreign currency risk management

Most of the Group's transactions are denominated in the group entities' functional currency, which is either US$, Renminbi or HK$.

The Group is mainly exposed to foreign currency risk in relation to US$ arising from foreign currency bank balances and cash and trade and other receivables.

The carrying amounts of the major foreign currency denominated monetary assets at the reporting date are as followings:

	Assets	
	2016	2015
	HK$'000	*HK$'000*
US$	**68,602**	165,517

Under the pegged exchange rate system, the financial impact on exchange difference between HK$ and US$ will be immaterial as most US$ denominated monetary assets are held by group entities having HK$ as their functional currency, and therefore no sensitivity analysis has been prepared.

The Group has not formulated a policy to hedge the foreign currency risk. No sensitivity analysis was prepared since the directors consider the amount involved is not significant.

Credit risk

At 31 December 2016, the maximum exposure of the Group to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from:

- the cash held in financial institutions; and
- the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

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

37. FINANCIAL INSTRUMENTS (continued)

c. Financial risk management objectives and policies (continued)

Credit risk (continued)

The Group has concentrations of credit risk comprising deposits placed at two (2015: two) financial institutions for the Group's investment in securities business of HK$2,935,000 (2015: HK$3,613,000) which represents approximately 70% (2015: 78%) of the Group's deposit placed with securities brokers. The management of the Group considered the credit risk on such balances held at financial institutions is limited because they are with good reputation.

The Group is exposed to credit risk in respect of its loan receivables. As at 31 December 2016, the carrying amount of loan receivables is HK$754,212,000 (2015: HK$480,099,000). The Group has concentration of credit risk as 66% (2015: 75%) of the total loans as at 31 December 2016 was due from three borrowers (2015: three). The balance due from these three borrowers is in an aggregate amount of HK$495,152,000 (2015: HK$358,752,000) as at 31 December 2016, which is neither past due nor impaired, of which the whole amount is considered recoverable given the collateral is sufficient to cover the entire balance on individual basis. The Group seeks to maintain strict control over its outstanding loan receivables to minimise credit risk. Management has a credit policy in place and the exposures to the credit risk are monitored on an ongoing basis. Impairment allowances on outstanding loan receivables are determined by an evaluation of financial background, as well as financial condition of and the anticipated receipts for that individual account, at the end of the reporting period.

At 31 December 2016, 97% (2015: 100%) of the Group's trade receivables were due from one (2015: four) counterparty within the securities brokerage businesses in Hong Kong (2015: trading business in Hong Kong and the PRC). The management performs periodic evaluations and customer visits to ensure the Group's exposure to bad debts is not significant. The experience in the collection of trade receivables falls within the expectation of the directors. The management currently is seeking new customer base to explore the market in order to reduce the reliance on the several major customers, and also mitigate concentrations of credit risk.

The credit risk on investments in unlisted debt and convertible securities is limited because the counterparties are corporations with good reputations.

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37. FINANCIAL INSTRUMENTS (continued)

c. Financial risk management objectives and policies (continued)

Credit risk (continued)

The credit quality of the unlisted debt securities included in AFS investments and financial assets at FVTPL as set out in Notes 22 and 27 and the credit quality of unlisted convertible securities included in financial assets at FVTPL as set out in Note 27 are determined by external credit-ratings.

The Group has concentration of credit risk on unlisted debt and convertible securities for its AFS investments and financial assets at FVTPL as they are issued by four independent third parties (2015: two). The management of the Group considers that the credit risk on AFS investments and financial assets at FVTPL held is limited as they were issued by companies with good reputation.

The Group does not have significant concentration of credit risk on investment in listed securities as counterparties are diversified.

The credit risk on liquid funds is limited because the counterparties are banks with good reputation.

Other than the above, the Group does not have other significant concentration of credit risk.

37. FINANCIAL INSTRUMENTS (continued)

c. Financial risk management objectives and policies (continued)

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the operations of the Group and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings.

The following tables show details of the non-derivative financial assets and liabilities of the Group. For non-derivative financial assets, the table has been drawn up based on the undiscounted cash flows of the financial assets including interest that will be earned on those assets. For non-derivative financial liabilities, the table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

Liquidity tables

	Weighted average effective interest rate %	Less than 1 month HK$'000	1 – 3 months HK$'000	3 months to 1 year HK$'000	1 year to 2 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount HK$'000
As at 31 December 2016							
Non-derivative financial assets							
Loan and other receivables (including cash and cash equivalents)	4.0	2,058,110	108,574	573,801	152,287	2,892,772	2,830,221
AFS investments	–	922,917	–	–	–	922,917	922,917
FVTPL – Held for trading	–	744,407	–	–	–	744,407	744,407
		3,725,434	108,574	573,801	152,287	4,560,096	4,497,545
Non-derivative financial liabilities							
Trade and other payables	–	32,524	–	–	–	32,524	32,524
Bank borrowings	1.5	–	–	88,723	–	88,723	88,077
Notes payable	8.6	–	–	105,000	1,620,000	1,725,000	1,470,919
		32,524	–	193,723	1,620,000	1,846,247	1,591,520

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37. FINANCIAL INSTRUMENTS (continued)

c. Financial risk management objectives and policies (continued)

Liquidity risk (continued)

Liquidity tables (continued)

	Weighted average effective interest rate	Less than 1 month	1 – 3 months	3 months to 1 year	1 year to 2 years	Total undiscounted cash flows	Carrying amount
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
As at 31 December 2015							
Non-derivative financial assets							
Loan and other receivables (including cash and cash equivalents)	6.6	433,753	178,596	434,736	–	1,047,085	1,013,724
AFS investments	–	846,820	–	–	–	846,820	846,820
FVTPL – held for trading	–	1,713,832	–	–	–	1,713,832	1,713,832
		2,994,405	178,596	434,736	–	3,607,737	3,574,376
Non-derivative financial liabilities							
Trade and other payables	–	396	–	–	–	396	396
Bank borrowings	1.8	–	54,018	47,638	–	101,656	101,121
		396	54,018	47,638	–	102,052	101,517

The cash flow of variable interest rate instruments is based on the rate outstanding at the end of the reporting period.

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 of interest rates determined at the end of the reporting period.

37. FINANCIAL INSTRUMENTS (continued)

d. Fair value measurements of financial instruments

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

Some of the Group's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how that fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used).

Financial assets	Fair value at 31 December 2016 HK$'000	Fair value at 31 December 2015 HK$'000	Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs
1) Financial assets at FVTPL					
Listed equity securities	**665,340**	1,693,832	Level 1	Quoted bid prices in an active market	N/A
Unlisted debt securities	**9,733**	20,000	Level 2	Quoted prices in over-the-counter markets	N/A
Unlisted convertible securities	**69,334**	–	Level 3	Binomial option pricing model with the key inputs of risk free rate, expected volatility, dividend yield and discount rate by reference to the listed bonds with similar rating	*Note*
2) AFS investments					
Listed equity securities	**56,485**	71,500	Level 1	Quoted bid prices in an active market	N/A
Listed debt securities	**39,182**	–	Level 1	Quoted bid prices in an active market	N/A
Unlisted debt securities	**827,250**	775,320	Level 2	Discounted rate determined by reference to the listed bonds in similar rating/quoted price in the over-the-counter market	N/A

Note: For the unlisted convertible securities, the most significant unobservable input is the discount rate. If the discount rate to the valuation model was 0.5% higher/lower while the other variables were held constant, the total carrying amount of the financial assets at FVTPL would decrease/increase by HK$146,000 and HK$147,000 respectively.

37. FINANCIAL INSTRUMENTS (continued)

d. Fair value measurements of financial instruments (continued)

Fair value hierarchy

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
At 31 December 2016				
Financial assets at FVTPL				
Listed equity securities	**665,340**	**–**	**–**	**665,340**
Unlisted debt securities	**–**	**9,733**	**–**	**9,733**
Unlisted convertible securities	**–**	**–**	**69,334**	**69,334**
AFS investments				
Listed equity securities	**56,485**	**–**	**–**	**56,485**
Listed debt securities	**39,182**	**–**	**–**	**39,182**
Unlisted debt securities	**–**	**827,250**	**–**	**827,250**
At 31 December 2015				
Financial assets at FVTPL				
Listed equity securities	1,693,832	–	–	1,693,832
Unlisted debt securities	–	20,000	–	20,000
AFS investments				
Listed equity securities	71,500	–	–	71,500
Unlisted debt securities	–	775,320	–	775,320

There was no transfer between Level 1, 2 and 3 for both years.

38. ACQUISITION OF A SUBSIDIARY

On 22 February 2016, the Group acquired 100% equity interests in Harmony Securities Limited (now known as CS Wealth Securities Limited) ("Harmony Securities") from independent third parties at a consideration of approximately HK$18,312,000 and the acquisition was settled by cash on the completion date. The acquisition has been accounted for using the purchase method. Harmony Securities is engaged in securities brokerage business and the purpose of the acquisition is to expand the Group's business portfolio.

Assets and liabilities of Harmony Securities as at the date of acquisition were as follows:

	HK$'000
Property, plant and equipment	**19**
Trade and other receivables	**5,802**
Pledged bank deposits	**3,078**
Bank balances and cash	**11,445**
Trade and other payables	**(6,032)**
Net assets acquired	**14,312**
Goodwill	**4,000**
Consideration transferred	**18,312**

Goodwill arose in the acquisition of Harmony Securities because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of Harmony Securities.

None of the goodwill arising on this acquisition is expected to be deductible for tax purpose

	HK$'000
Net cash outflow for acquisition of a subsidiary:	
Cash consideration paid	**18,312**
Bank balances and cash acquired	**(11,445)**
	6,867

Acquisition-related costs amounting to approximately HK$697,000 have been excluded from the consideration transferred and have been recognised as an expense in the current year's profit or loss.

39. OPERATING LEASES

The Group as lessee

The Group made approximately HK$9,027,000 (2015: HK$8,774,000) minimum lease payments under operating leases during the year in respect of certain of its office premises.

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

	2016 ***HK$'000***	2015 *HK$'000*
Within one year	**8,382**	8,082
In the second to fifth years, inclusive	**–**	8,082
	8,382	16,164

Operating lease payments mainly represented rentals payable by the Group for certain of its office premises. Leases are negotiated for an average term of one year (2015: one to three years) and rentals are fixed for an average of one year (2015: one to three years).

40. PLEDGE OF ASSETS

At 31 December 2016, as disclosed in Notes 22 and 26, debt securities of HK$86,432,000 (2015: nil) and bill receivables amounting to HK$21,893,000 (2015: HK$101,121,000) have been pledged to banks by way of a floating charge respectively.

In addition, as disclosed in Note 28, the Group's credit facilities on issuance of letters of credit and securities brokerage settlement were secured by the Group's bank deposits of HK$30,531,000 (2015: HK$52,342,000).

41. CAPITAL COMMITMENTS

	2016 ***HK$'000***	2015 *HK$'000*
Contracted for but not provided in the consolidated financial statements in respect of:		
– property, plant and equipment	**–**	20,772
– a subsidiary	**–**	16,000
	–	36,772

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For the year ended 31 December 2016

42. RELATED PARTY DISCLOSURES

Compensation of key management personnel

The remuneration of directors who are also identified as members of key management during the years was as follows:

	2016	2015
	HK$'000	*HK$'000*
Short-term benefits	**20,683**	20,453
Post-employment benefits	**202**	159
	20,885	20,612

The remuneration of directors and key executives is determined by the Remuneration Committee having regard to the competence, performance and experience of individuals and prevailing market terms.

43. RETIREMENT BENEFIT SCHEMES

The Group operates a Mandatory Provident Fund Scheme ("MPF Scheme") for all qualifying employees in Hong Kong under the Mandatory Provident Fund Scheme Ordinance. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees.

The retirement benefit scheme contributions relating to the MPF Scheme charged to the consolidated statement of profit or loss and other comprehensive income represent contributions payable to the scheme by the Group at rates specified in the rules of the scheme.

The total costs charged to the statement of profit or loss and other comprehensive income of approximately HK$846,000 (2015: HK$747,000) represent contributions payable to this/these scheme(s) by the Group.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

44. PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries at 31 December 2016 and 2015 are as follows:

Name	Place of incorporation/ registration and operation	Class of shares held	Issued and fully paid ordinary share capital	Percentage of equity interest and voting power attributable to the Company				Principal activities
				31 December 2016		31 December 2015		
				Direct %	Indirect %	Direct %	Indirect %	
China Strategic Management Limited	Hong Kong ("HK")	Ordinary	HK$1	–	100	–	100	Provision of management service
China Strategic Metal and Minerals Limited	HK	Ordinary	HK$1	–	100	–	100	Trading of metal minerals and products
CS Credit Limited	HK	Ordinary	HK$1	–	100	–	100	Money lending
Glory Legacy Asia Limited	British Virgin Islands ("BVI")	Ordinary	US$99,000,001	–	100	–	100	Investment in securities
Guide Plus Investments Limited	HK	Ordinary	HK$1	–	100	–	100	Investment in securities
Max Talent Investments Limited	HK	Ordinary	HK$1	–	100	–	100	Sales of electronic components
Prospect Vantage Holdings Limited	BVI	Ordinary	US$1	–	100	–	100	Investment in securities
Rich Crown Investments Limited	HK	Ordinary	HK$439,506,046	–	100	–	100	Investment in securities
U Credit (HK) Limited	HK	Ordinary	HK$1	–	100	–	100	Money lending
CS Wealth Securities Limited	HK	Ordinary	HK$10,000,000	–	100	–	–	Securities brokerage

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

44. PRINCIPAL SUBSIDIARIES (continued)

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

At the end of the reporting period, the Company has other subsidiaries that are not material to the Group. The principal activities and places of these subsidiaries are summarised as follows:

		Number of subsidiaries	
Principal activities of business	**Principal place**	**2016**	2015
Investment holding	BVI	**11**	12
Inactive	BVI	**2**	7
Inactive	HK	**4**	4
		17	23

45. EVENT AFTER THE REPORTING PERIOD

In January 2017, the Group's investment in perpetual securities in the aggregate principal amount of US$100,000,000 (equivalent to approximately HK$780,000,000) issued by Evergrande (included as AFS investments) were redeemed at par.

Five-Year Financial Summary

RESULTS

	For the year ended 31 December				
	2016	2015	2014	2013	2012
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Continuing operations					
Revenue	**270,706**	239,466	417,590	109,479	–
(Loss) profit before tax	**(518,140)**	692,895	274,491	(7,401)	(80,471)
Income tax credit (expense)	**81,270**	(108,539)	(1,201)	(403)	–
(Loss) profit for the year from continuing operations	**(436,870)**	584,356	273,290	(7,804)	(80,471)
Discontinued operation					
Profit (loss) for the year from discontinued operation	**–**	–	106,529	(9,887)	(10,230)
(Loss) profit for the year	**(436,870)**	584,356	379,819	(17,691)	(90,701)
Attributable to:					
Owners of the Company	**(436,870)**	584,148	376,994	(15,398)	(90,612)
Non-controlling interests	**–**	208	2,825	(2,293)	(89)
	(436,870)	584,356	379,819	(17,691)	(90,701)

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	At 31 December				
	2016	2015	2014	2013	2012
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Total assets	**4,563,197**	3,593,751	1,272,305	767,643	761,037
Total liabilities	**(1,641,970)**	(222,751)	(11,761)	(161,267)	(136,457)
	2,921,227	3,371,000	1,260,544	606,376	624,580
Equity attributable to owners of the Company	**2,921,227**	3,371,000	1,259,673	608,871	624,787
Non-controlling interests	**–**	–	871	(2,495)	(207)
	2,921,227	3,371,000	1,260,544	606,376	624,580