G-RESOURCES


# 2017
# ANNUAL REPORT

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## CORPORATE PHILOSOPHY

### OUR VALUES

We strive to be a GREAT company in all of our operations and dealings with people. The GREAT values are the foundation of our Company, and provide a core commitment to achieve the best we can for all of G-Resources' stakeholders.

### GREAT VALUES

**GROWTH** in value for all our stakeholders
**RESPECT** for our people, our communities and for all stakeholders
**EXCELLENCE** in everything we do
**ACTION** to deliver on our commitments
**TRANSPARENCY** openness, honesty and good governance

G-Resources is a company listed on the Hong Kong Stock Exchange focusing on principal investment business, financial services business, money lending business and real property business (HKEx: 1051).

# CORPORATE INFORMATION

## BOARD OF DIRECTORS

**Executive Directors**
Mr Chiu Tao, *Chairman and Acting Chief Executive Officer*
Mr Ma Xiao, *Deputy Chief Executive Officer*
Mr Wah Wang Kei, Jackie
Mr Leung Oi Kin
Mr Leung Wai Yiu, Malcoln

**Independent Non-Executive Directors**
Mr Lo Wa Kei, Roy
Mr Chen Gong
Mr Martin Que Meideng

## EXECUTIVE COMMITTEE

Mr Chiu Tao, *Chairman*
Mr Ma Xiao
Mr Wah Wang Kei, Jackie
Mr Leung Oi Kin
Mr Leung Wai Yiu, Malcoln

## AUDIT COMMITTEE

Mr Lo Wa Kei, Roy, *Chairman*
Mr Chen Gong
Mr Martin Que Meideng

## REMUNERATION COMMITTEE

Mr Lo Wa Kei, Roy, *Chairman*
Mr Chen Gong
Mr Martin Que Meideng

## NOMINATION COMMITTEE

Mr Chiu Tao, *Chairman*
Mr Lo Wa Kei, Roy
Mr Chen Gong

## COMPANY SECRETARY

Mr Leung Oi Kin

## AUDITOR

Deloitte Touche Tohmatsu

## LEGAL ADVISORS

Hong Kong: Peter Yuen & Associates
(in association with Fangda Partners),
Sullivan & Cromwell,
Tung & Co.
Bermuda: Appleby

## PRINCIPAL BANKERS

Industrial and Commercial Bank of China (Asia) Limited
Hang Seng Bank Limited
Bank of Communications Co., Ltd.

## SHARE REGISTRARS

**Hong Kong**
Union Registrars Limited
Suites 3301–04, 33/F.
Two Chinachem Exchange Square
338 King's Road
North Point, Hong Kong

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

## REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Room 1801, 18/F
Capital Centre
No. 151 Gloucester Road
Wanchai, Hong Kong

## WEBSITE

www.g-resources.com

# CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board (the "Board") of directors (the "Director(s)") of G-Resources Group Limited (the "Company" or "G-Resources") and its subsidiaries (collectively the "Group"), I hereby present to our shareholders the annual results of the Group for the year ended 31 December 2017 (the "Year").

I am pleased to report that 2017 is another profitable year for G-Resources. During the Year, through our distinctive two-pronged "finance + property" development strategy, the Group focused on our three main businesses, namely principal investment business, financial services business and real property business. The results for the Year have also demonstrated firm growth in our existing continuing operation: the Group's profit from continuing operations rose to USD32.2 million in 2017, mainly attributable to a net increase in the fair value changes of held for trading investments and increase in fair value of investment properties.

In 2017, the Group continued to expand our investment portfolio under our principal investment business. The Group made investments in two funds in February and April 2017, which focused on healthcare and technology, media and telecommunications industries respectively. We believe that the industries invested according to the Group's current investment strategy, tracks and competence of the fund management team enable us to seize investment opportunities and potential investment returns in line with the overall interests of the Company and our shareholders.

For our financial services business, the Group has maintained progressive development of the business of its subsidiary, Enhanced Financial Services Group Limited ("EFS"), seeking integration based on our currently held type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities), type 6 (advising on corporate finance), and type 9 (asset management) licences under the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO") to expand into a comprehensive financial services platform.

Apart from the financial services platform, we continued to see a market for short term loans with higher interest rate in Hong Kong, but we insisted on adopting a prudent approach to such development. Same as 2016, G-Resources did not record any bad debt for our money lending business in 2017. During the Year, we lent out a total of approximately USD93.4 million under our money lending business. As at 31 December 2017, the term of those loans ranges from one month to two years with interest rates ranging from 7.5% to 36.0% per annum.

For our real property business, the Group's property investments in Hong Kong not only brought us stable rental income during the Year, but also provided potential for capital appreciation. The Group remains confident in Hong Kong's property market. However, the Group is cautious on whether the prevailing levels of property prices can be sustained. The Group will continue to seek investment opportunities for its real property business in Hong Kong and other countries.

The Group has a strong balance sheet with solid funds available for future investments at the opportune moment. We are prepared for any good opportunities when they arise.

Finally, on behalf of the Board, I would like to express thanks to our management team and the entire staff for their devoted service during the Year, as well as our sincere gratitude to our shareholders for their continuing support for G-Resources. I look forward to continuing to work with them to achieve further development and greater success for the Company.

**Chiu Tao**
*Chairman*
Hong Kong, 29 March 2018

# COMPANY OVERVIEW

The principal business segments of the Group are described below:

## 1. PRINCIPAL INVESTMENT BUSINESS

In late 2014, the Group announced the adoption of a strategy to expand its business to include a principal investment business, the goal of which is to identify investment opportunities and to invest in different industries, to provide better risk weighted return and capital value to the Group.

The Executive Committee of the Company is responsible for identifying, reviewing, considering and approving different investment opportunities taking into account the Group's liquidity requirements, risk to capital and reasonable returns on investment with the risk taken.

We are also diversifying our investment portfolio under our principal investment business. During the Year, the Group invested in listed and unlisted financial assets, which were mainly unlisted other security investments and bonds.

## 2. FINANCIAL SERVICES BUSINESS

The Company is continuing to extend the scope of its principal activities to include the provision of a wide range of financial services, including securities brokerage services, placing and underwriting services, corporate finance advisory services, provision of margin financing, money lending business and investment advisory and management services.

### (A) MONEY LENDING

The Company engaged in money lending business in Hong Kong through its subsidiaries, namely Global Access Development Limited and Enhanced Finance Limited. Both companies incorporated in Hong Kong and hold a money lender's license under the Money Lenders Ordinance (Chapter 163 of the Laws of Hong Kong). The Group will continue to use a prudent approach to manage risk and maintain the profitability of the business.

### (B) SECURITIES DEALING

The Group exercised its right of conversion under the convertible bonds of EFS at the end of March 2016. EFS is now a 75%-owned subsidiary of G-Resources. EFS is holding, through its subsidiaries, type 1 (dealing in securities), type 2 (dealing in futures contracts), type 4 (advising on securities), type 6 (advising on corporate finance), and type 9 (asset management) licences under the SFO.

## 3. REAL PROPERTY BUSINESS

In the past few years, a low interest rate environment coupled with continuous economic growth in Hong Kong has seen robust demand for properties in Hong Kong. The Group intends to continue to expand its property portfolio on commercial properties with a focus in Hong Kong and other countries, but also in other types of properties as and when appropriate investment opportunities arise.

# BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

## EXECUTIVE DIRECTORS

**Chiu Tao**, aged 62
was appointed as the Chairman and an executive Director on 19 August 2009 and 22 July 2009, respectively. Mr Chiu was also appointed as Acting Chief Executive Officer of the Company on 30 June 2015. Mr Chiu is an experienced executive and merchant, and was engaged as the chairman of various listed companies in Hong Kong. Mr Chiu has extensive experience in the metal business, trading, investment planning, business acquisitions and development, and corporate management. He is currently the Chairman and an executive director of CST Group Limited ("CST") (formerly known as NetMind Financial Holdings Limited), whose shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

**Ma Xiao**, aged 52
was appointed as the Deputy Chief Executive Officer and an executive Director on 22 July 2009. Mr Ma has over twenty years of international minerals and metals trading, financing and hedging experience. Mr Ma also has extensive experience in mineral company acquisitions and development. He previously held senior and executive positions with several base and precious metals companies, including China Minmetals. Mr Ma was based in London for four years working for Minmetals (UK) Limited. He was the managing director of Guizhou H-Gold & Mining Limited and a director of the China Minerals Acquisition Fund.

**Wah Wang Kei, Jackie**, aged 51
was appointed as an executive Director on 9 April 2008. Mr Wah graduated from The University of Hong Kong in 1990 and was qualified as a solicitor in 1992. Up until 1997, Mr Wah was a partner of a Hong Kong law firm. He is currently an executive director and in-house legal counsel of CST; and an independent non-executive director of Symphony Holdings Limited (whose shares are listed on the Main Board of the Stock Exchange).

**Leung Oi Kin**, aged 43
was appointed as an executive Director and company secretary of the Company on 8 November 2016 and 16 December 2016, respectively. Mr Leung has more than eighteen years of experience in accounting and financial management. He is a professional accountant and a member of the CPA Australia. Prior to joining the Company, Mr Leung worked in PricewaterhouseCoopers as an auditor. He is currently an independent non-executive director of Austar Lifesciences Limited (whose shares are listed on the Main Board of the Stock Exchange). He was the group financial controller of China NT Pharma Group Company Limited (whose shares are listed on the Main Board of the Stock Exchange). He was also the company secretary and chief financial officer of Wisdom Sports Group (formerly known as Wisdom Holdings Group) (whose shares are listed on the Main Board of the Stock Exchange); and the chief financial officer of Linekong Interactive Group Co., Ltd. (formerly known as Linekong Interactive Co., Ltd.) (whose shares are listed on the GEM of the Stock Exchange). Mr Leung graduated from University of Adelaide, Australia in 1997 with a bachelor's degree in commerce.

**Leung Wai Yiu, Malcoln**, aged 36
was appointed as an executive Director on 16 April 2018. Mr Leung currently serves as executive director, Head of Investments of the Company and is primarily responsible for the Group's investment, asset management and strategic planning, as well as formulating the Group's overall business and asset portfolio strategy. He is also responsible for the day-to-day operations and overall management of the Company's investment management team. He is a director of various subsidiaries of the Company. Mr Leung has over fourteen years of extensive experience in asset management, investment banking and technology industry, based in the United States, Singapore and Hong Kong. Prior to joining the Group in 2017, Mr Leung held key positions in various multinational financial institutions and investment banks including Bank of America Merrill Lynch, Standard Chartered and HSBC, and he was responsible for leading global private equity investments and cross-border merger and acquisition transactions, covering different industries such as technology, real estate, financials, insurance and healthcare. Mr Leung obtained a master's degree in business administration from the Massachusetts Institute of Technology in the United States.

# BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Lo Wa Kei, Roy**, aged 46
was appointed as an independent non-executive Director on 17 July 2017. Mr Lo received a bachelor's degree of business administration from The University of Hong Kong in 1993 and a master's degree of professional accounting from The Hong Kong Polytechnic University in 2000. Mr Lo is a practicing accountant in Hong Kong and is a certified public accountant in Hong Kong, a fellow member of the Hong Kong Institute of Certified Public Accountants, a fellow member of the CPA Australia and an associate of the Institute of Chartered Accountants in England and Wales. He serves as the managing partner of SHINEWING (HK) CPA Limited, which is a full service accounting and consulting firm engaged in the provision of, among other things, audit and business advisory services. He is also a member of the Shanghai Pudong New Area Committee of the Chinese People's Political Consultative Conference, the founding executive vice-president and council member of the Hong Kong Independent Non-Executive Director Association and the Divisional Deputy President 2018 – Greater China of CPA Australia. Mr Lo has over twenty-three years of experience in auditing, accounting, risk management and finance and has been serving as an independent non-executive director of a number of companies listed on the Stock Exchange, including China Oceanwide International Financial Limited (formerly known as Quam Limited), Wan Kei Group Holdings Limited, Sun Hing Vision Group Holdings Limited, China Zhongwang Holdings Limited, Sheen Tai Holdings Group Company Limited, China Oceanwide Holdings Limited (formerly known as Hutchison Harbour Ring Limited) and Xinming China Holdings Limited. He also served as an independent non-executive director of North Mining Shares Company Limited.

**Chen Gong**, aged 47
was appointed as an independent non-executive Director on 3 February 2017. Mr Chen has more than twenty years of extensive experience in finance management, mergers & acquisitions, financing, negotiation and restructuring in a cross-culture environment. Mr Chen has participated in cross-border merger & acquisition and financing transactions. He has been involved in the management of various public companies listed in the Toronto Stock Exchange, in the capacity of director and/or chief executive officer/chief financial officer. Mr Chen was a director and chief executive officer of First Growth Holdings Ltd. (whose shares are listed on TSX Venture Exchange). He is currently also an independent director of Newmac Resources Inc. (whose shares are listed on TSX Venture Exchange); and a president, chief executive officer and director of Ord Mountain Resources Corp. (whose shares are listed on TSX Venture Exchange NEX). Mr Chen is also the founder and managing director of DoubleOcean Financial Group, a financial advisory company that facilitates the cross-border investments between North America and China. Mr Chen also worked in various financial management positions at two Fortune 100 companies in the United States for about eight years.

Mr Chen received a bachelor's degree in International Economics from Peking (Beijing) University in 1992 and a master of business administration (MBA) from the University of Arizona in 1997. He is a United States Certified Public Accountant (CPA).

**Martin Que Meideng**, aged 56
was appointed as an independent non-executive Director on 3 February 2017. Mr Que has over twenty years of extensive experience of North American financial investment and management, chartered financial planner in North American and tax planning and investment risk management.

Mr Que received a bachelor of engineering from Wuhan College of Geology in 1983 and a master of science from China University of Geosciences of China in 1986. Mr Que is a president and owner of Allvista Financial and Planning Services Inc., British Columbia, Canada; a vice-president of Marketing of Citistar Financial, British Columbia, Canada; a chief financial officer of Blue-O Technology Inc., British Columbia, Canada, a fuel cell technology company. He is also a member of the Million Dollar Round Table (MDRT) of The Premier Association of Financial Professionals®, a Certified Financial Planner of the Financial Planning Standards Council and a Chartered Life Underwriter of The American College of Financial Services.

# BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

## SENIOR MANAGEMENT

**Lau Yue Wah, Brian**, aged 44
is a director of EFS (an indirect 75%-owned subsidiary of the Company) and its various subsidiaries. Mr Lau graduated from The University of New South Wales in Sydney. He is a co-founder of Enhanced Securities Limited ("ESL") and Enhanced Finance Limited ("EFL"). Mr Lau has over twenty years of experience in the financial services industry. He had held different positions in ESL and EFL. He was a responsible officer of ESL from 2011 to 2014, supervising type 1 regulated activities under the SFO. He is holding a type 1 and type 4 (effective June 2017) license under the SFO and is a responsible officer for type 1 regulated activities under the SFO with effect from January 2017.

**Nguyen Gia Vinh, Patrick**, aged 42
is a co-founder of Enhanced Investment Management Limited ("EIML") and currently holds the roles of director and responsible officer of EIML. Mr Nguyen has over fifteen years of investment advisory and discretionary portfolio management experience. He is in charge of overseeing the strategic development and daily operations of EIML. Before founding EIML, Mr Nguyen was a director at the International Private Banking division of CTBC Bank (formerly known as Chinatrust Commercial Bank). From 2007 to 2011, he worked as the Head of Investment at Crosby Wealth Management. Prior to that, he was a senior investment advisor of AIG Private Bank, responsible for formulating portfolio allocation strategies and providing investment recommendations/solutions to relationship managers and clients. Mr Nguyen graduated from Boston College, USA and is a CFA charterholder since 2003.

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW AND RESULTS

Below is a summary of the financial information:

| | 2017 USD'000 | 2016 USD'000 |
|---|---|---|
| **For continuing operations:** | | |
| Revenue | **30,123** | 29,985 |
| Administrative expenses | **17,620** | 13,867 |
| EBITDA | **36,005** | 11,954 |
| Profit before taxation | **32,536** | 10,235 |
| Profit for the year from continuing operations | **32,162** | 10,238 |
| **Analysis of Profit before taxation from continuing operations:** | | |
| (i) Principal Investment Business | **44,458** | 6,672 |
| (ii) Financial Services Business | **5,851** | 10,784 |
| (iii) Real Property Business | **1,154** | 1,941 |

## REVIEW OF CONTINUING OPERATIONS

For the Year, the Group achieved a net profit after tax for continuing operations of USD32.2 million (2016: USD10.2 million). The main reason for the increase in profit was due to the increase in fair value changes of held for trading investments of USD6.9 million (2016: decrease in fair value changes of held for trading investments of USD9.5 million) and gain on disposal of available-for-sale investments of USD3.5 million. The increase in other income and increase in fair value of investment properties were partially offset by the provision of impairment on property, plant and equipment.

Revenue was USD30.1 million (2016: USD30.0 million), which was mainly generated by the interest income from financial products and money lending business, dividend and distribution income from financial products, and commission income from financial services.

Administrative expenses was USD17.6 million for the Year, an increase of USD3.7 million as compared to the corresponding year of USD13.9 million. The increase was partly contributed by the increase in activities in the Financial Services Business for the Year and expenses incurred in search of new business opportunities.

### (i) Principal Investment Business

During the Year, the Group invested approximately USD161.4 million in listed and unlisted financial assets, which were mainly unlisted other security investments and bonds. For the Year, the Group recorded interest income, dividend income and distribution income of USD21.0 million and a net realised and unrealised gain of USD11.8 million from the financial assets held by the Group.

As at 31 December 2017, the Group held approximately USD458.4 million non-cash financial assets, as follows:

| | 2017 USD'000 | 2016 USD'000 |
|---|---|---|
| Listed shares | **78,719** | 72,391 |
| Listed debt securities | **203,266** | 176,431 |
| Unlisted managed investment funds | **48,107** | 47,977 |
| Unlisted other security investments | **128,355** | 48,974 |
| Perpetual securities | **–** | 30,000 |
| Total | **458,447** | 375,773 |

# MANAGEMENT DISCUSSION AND ANALYSIS

There was no single investment (for example, available-for-sale investments and financial assets at fair value through profit or loss) in the Group's diversified investment portfolio that was considered a significant investment given that none of the investments has a carrying amount accounting for more than 5% of the Group's audited total assets as at 31 December 2017.

### (ii) Financial Services Business

EFS is now a 75%-owned subsidiary of the Company. The commission income contributed by EFS during the Year was USD3.7 million (2016: USD1.2 million).

The Group lent out USD93.4 million and received USD93.9 million repayments during the Year. There were no bad debts during the Year. Interest income from money lending business and margin financing was USD3.8 million (2016: USD12.3 million). The profit before taxation from financial services business was USD5.9 million (2016: USD10.8 million).

As at 31 December 2017, the fixed-rate loans receivable were USD15.3 million.

### (iii) Real Property Business

As at 31 December 2017, the Group had three floors of commercial offices and ten car parks located in Wanchai, Hong Kong. The rental income earned was USD1.6 million (2016: USD1.9 million) for the Year.

## REVIEW OF GROUP FINANCIAL POSITION

| | **2017 USD'000** | 2016 USD'000 |
|---|---|---|
| Current Assets | | |
| Bank balances and cash | **780,142** | 825,485 |
| Held for trading investments | **78,719** | 72,391 |
| Loans receivable | **15,266** | 15,868 |
| Others | **15,400** | 21,855 |
| Non-current Assets | | |
| Available-for-sale investments | **379,728** | 303,382 |
| Others | **136,336** | 135,890 |
| Total Assets | **1,405,591** | 1,374,871 |
| Other Liabilities | **(15,933)** | (13,240) |
| Net Assets | **1,389,658** | 1,361,631 |

Non-current assets were USD516.1 million (2016: USD439.3 million), representing an increase of USD76.8 million which was mainly due to the net increase in available-for-sale investments of USD76.3 million. The current assets amounted to USD889.5 million (2016: USD935.6 million), representing a decrease of USD46.1 million which was mainly due to the decrease in bank balances and cash of USD45.3 million.

## NET ASSET VALUE

As at 31 December 2017, the Group's total net assets amounted to approximately USD1,389.7 million, representing an increase of USD28.1 million as compared to approximately USD1,361.6 million as at 31 December 2016. The increase in net assets was mainly due to the profit for the year from continuing operations of USD32.2 million.

# MANAGEMENT DISCUSSION AND ANALYSIS

## CASH FLOW, LIQUIDITY AND FINANCIAL RESOURCES

### CASH FLOW SUMMARY

| | 2017 USD'000 | 2016 USD'000 |
|---|---|---|
| Net cash from Operating Activities | **16,441** | 65,101 |
| Net cash (used in)/from Investing Activities | **(56,388)** | 657,890 |
| Net cash used in Financing Activities | **(128)** | (6,056) |
| Net (decrease)/increase in cash and cash equivalents | **(40,075)** | 716,935 |
| Cash and cash equivalents at beginning of the year | **825,485** | 106,963 |
| Effect of foreign exchange rate changes | **(5,268)** | 1,587 |
| Cash and cash equivalents at end of the year | **780,142** | 825,485 |

The Group's cash balance as at 31 December 2017 was USD780.1 million (2016: USD825.5 million). The Group generated net cash inflows from operating activities for 2017 of USD16.4 million, which was mainly contributed by net cash generated from principal investment business and financial services business. Net cash used in investing activities was USD56.4 million as USD152.1 million invested in available-for-sale investments which was set off with USD65.9 million and USD14.8 million proceeds from disposal and return of capital of available-for-sale investments, respectively.

The Group's gearing ratio, expressed as the percentage of the Group's total borrowings over shareholders' equity, was nil as at 31 December 2017 and 31 December 2016, respectively as the Group did not have any borrowings as at the end of each of the reporting periods.

## CAPITAL STRUCTURE OF THE GROUP

The capital structure of the Group has not changed materially since 30 June 2017, being the end of the reporting period of the Group's interim report.

## MATERIAL ACQUISITIONS AND DISPOSALS

On 10 February 2017, Top Concept Global Limited ("TCGL"), an indirect wholly-owned subsidiary of the Company, Empire Gain International Limited ("Original Investor"), Edge Special Opportunity Limited ("Edge Special") and ZQ Capital Services Limited ("ZQ Capital") entered into the deed of novation ("Novation Deed") pursuant to which the Original Investor transferred to TCGL, and TCGL accepted the transfer of, all the rights and outstanding obligations of the Original Investor under the investment agreement dated 12 December 2016 entered into among Edge Special, ZQ Capital and the Original Investor, subject to the terms of the Novation Deed.

On 28 April 2017, Classic Idea Investments Limited ("Transferee"), an indirect wholly-owned subsidiary of the Company, entered into the transfer agreement with Dundee Greentech Limited ("Transferor") and Genesis Capital Ltd ("General Partner"), pursuant to which the Transferor conditionally agreed to transfer and assign, and the Transferee conditionally agreed to assume the limited partnership interest in Genesis Capital I LP, a Cayman Islands exempted limited partnership (the "Fund") represented by a capital commitment of USD80.0 million (equivalent to approximately HKD624.0 million) to the Fund, representing 20% of the total capital commitment to the Fund as at 28 April 2017 for a consideration of USD38,613,838 (equivalent to approximately HKD301.2 million).

Save as disclosed above, there was no material acquisition or disposal of subsidiaries, associates and joint ventures during the Year.

# MANAGEMENT DISCUSSION AND ANALYSIS

## EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGE

The Group conducted most of its business in United States dollars ("USD") and Hong Kong dollars ("HKD"). The foreign currency exposure of HKD to USD is minimal as HKD is pegged to USD.

The management will continue to monitor the Group's foreign currency exposure and consider other hedging policies should the need arise.

## PLEDGE OF ASSETS

As at 31 December 2017, no assets of the Group had been pledged.

## BUSINESS OUTLOOK

Despite a positive global economic environment during the year of 2017, uncertainties coexist with opportunities in the financial market. Looking ahead, the Group will carry on with our two-pronged "finance + property" development strategy, banking on our solid funds to optimise resource allocation and maintain our three main businesses for long-term development.

For the principal investment business, the Group strives to diversify its investment portfolio and achieve risk dispersion. The Group will continuously be dedicated to tapping quality investment projects in the technology, media and telecommunications and healthcare industries, in order to elevate the Group's overall profitability and returns. On the other hand, the Group has been and will be seeking for other suitable investment opportunities in projects with strong growth outlooks, recognised catalysts for development and attractive valuations to further strengthen its investment portfolios.

Regarding the financial services business, the Group will continue to expand our existing securities, brokerage and margin financing businesses, and seek business opportunities in other financial sectors such as fund management. Meanwhile, the Group will persist with a cautious approach in developing our money lending business to achieve a risk-gain balance.

As to the real property business, the Group will carry on seeking investment opportunities for real property in Hong Kong and other countries, including North American and European countries, in line with our sustained effort to secure stable income sources for the Group.

## HUMAN RESOURCES

As at 31 December 2017, the Group had 45 employees in Hong Kong. Employees are remunerated at a competitive level and are rewarded according to their performance. Our Group's remuneration packages include a medical scheme, group insurance, mandatory provident fund, performance bonus and options for our employees.

According to the new share option scheme adopted by the Company on 18 June 2014, share options may be granted to Directors and eligible employees of the Group to subscribe for shares in the Company in accordance with the terms and conditions stipulated therein.

# DIRECTORS' REPORT

The Board is pleased to present their report and the audited financial statements for the Year.

## PRINCIPAL ACTIVITIES

In the course of the financial year, the principal activities of the Company are principal investment business, financial services business, money lending business and real property business. The principal activities of the Company's subsidiaries as at 31 December 2017 are set out in note 40 to the financial statements contained in this annual report.

## BUSINESS REVIEW

A business review of the Group is set out on pages 8 to 11 of this annual report.

## FUTURE DEVELOPMENTS OF THE GROUP'S BUSINESS PROSPECTS

Details of the business's future prospects are set out in the section headed "Management Discussion and Analysis – Business Outlook" on page 11 of this annual report.

## DIVIDENDS

The Board has resolved not to declare any final dividend for the Year.

## FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the past five financial years is set out on page 108 of this annual report.

## RESERVES

Details of the movements during the Year in the reserves of the Group are set out in the consolidated statement of changes in equity on page 41 of this annual report.

## SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the Year are set out in notes 28 and 29 to the financial statements contained in this annual report, respectively.

## PROPERTY, PLANT AND EQUIPMENT

Details of the movements in the property, plant and equipment of the Group during the Year are set out in note 14 to the financial statements contained in this annual report.

## DIRECTORS

The Directors during the Year and up to the date of this annual report are:

### Executive Directors

Chiu Tao *(Chairman and Acting Chief Executive Officer)*
Ma Xiao *(Deputy Chief Executive Officer)*
Wah Wang Kei, Jackie
Leung Oi Kin
Leung Wai Yiu, Malcoln (appointed on 16 April 2018)
Hui Richard Rui (resigned on 3 February 2017)

### Independent Non-Executive Directors

Lo Wa Kei, Roy (appointed on 17 July 2017)
Chen Gong (appointed on 3 February 2017)
Martin Que Meideng (appointed on 3 February 2017)
Or Ching Fai *(Vice-Chairman)* (retired on 30 June 2017)
Ma Yin Fan (resigned on 3 February 2017)
Leung Hoi Ying (resigned on 3 February 2017)

# DIRECTORS' REPORT

In accordance with clause 99 of the Company's Bye-laws, at each annual general meeting ("AGM") one third of the Directors for the time being, or, if their number is not three or a multiple of three, then the number nearest but not less than one-third, shall retire from office by rotation. Accordingly, Mr Chiu Tao and Mr Wah Wang Kei, Jackie will retire by rotation at the forthcoming AGM. Each of Mr Chiu Tao and Mr Wah Wang Kei, Jackie, being eligible, have offered themselves for re-election.

In accordance with clause 102(B) of the Company's Bye-laws, any Director appointed as an addition to the Board shall hold office only until the next following AGM of the Company and shall then be eligible for re-election at the meeting. Thus, Mr Lo Wa Kei, Roy and Mr Leung Wai Yiu, Malcoln, being the newly appointed Directors will retire at the forthcoming AGM and, being eligible, offer themselves for re-election.

## CHANGE OF DIRECTORS

Save as disclosed in the interim report of the Company for the six months ended 30 June 2017, the change of Directors during the Year and thereafter are as follows:

On 16 April 2018, Mr Leung Wai Yiu, Malcoln was appointed as an executive Director and a member of the Executive Committee of the Company.

## DIRECTORS' SERVICE CONTRACTS OF THE RETIRING DIRECTORS

Each of Mr Chiu Tao, Mr Wah Wang Kei, Jackie and Mr Leung Wai Yiu, Malcoln has entered into a service agreement with the Company. These service agreements shall be valid unless terminated by either party by giving a three months' written notice.

The term of office of Mr Lo Wa Kei, Roy is three years and will be subject to retirement by rotation and re-election at the AGM of the Company in accordance with the Company's Bye-laws.

Save as disclosed above, none of the Directors being proposed for re-election at the forthcoming 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.

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

During the Year, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

## DIRECTORS AND EXECUTIVE OFFICERS' INTERESTS IN SECURITIES

As at 31 December 2017, the interests and short positions of the Directors and Executive Officers of the Company and their respective associates in the shares, underlying shares, convertible notes or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register maintained by the Company pursuant to Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which were taken or deemed to have under such provisions of the SFO) or pursuant to the Model Code for Securities Transactions by Directors and Chief Executives of the Company (the "Model Code"), were disclosed as follows in accordance with the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"):

### Long positions in shares and underlying shares of the Company

| | Number of shares/underlying shares(1) | | | | |
|---|---|---|---|---|---|
| Name of Director | Personal interests | Corporate interests | Share options | Total | Approximate % of the issued share capital of the Company(2) |
| Wah Wang Kei, Jackie | 1,780,800 | – | – | 1,780,800 | 0.00% |

Notes:
1. Ordinary shares unless otherwise specified in the Note.
2. Certain percentage figures included in this table have been subject to rounding adjustments.

# DIRECTORS' REPORT

Save as disclosed above, none of the Directors and Executive Officers of the Company or their associates had any interests and short positions in the shares, underlying shares, convertible notes or debentures of the Company or any of its associated corporations as recorded in the register maintained by the Company pursuant to Section 352 of the SFO or otherwise notified by the Company pursuant to the Model Code required to be disclosed in accordance with the Listing Rules as at 31 December 2017.

## SHARE OPTION

Particulars of the share option scheme of the Company are set out in note 29 to the financial statements contained in this annual report.

### Share Option Scheme

The Company's old share option scheme adopted on 30 July 2004 (the "2004 Share Option Scheme") expired on 29 July 2014. In order to continue to provide incentives and rewards to the eligible employees and participants, the Company adopted a new share option scheme pursuant to a resolution passed by the shareholders of the Company on 18 June 2014 (the "2014 Share Option Scheme") which will remain in force for ten years from the date becoming effective. The following table discloses movements in the Company's share options held by each of the Directors and the employees of the Company in aggregate granted under the 2004 Share Option Scheme during the Year:

| Name or Category of participants | Date of grant | Exercisable period | Exercise price HKD | Outstanding as at 01.01.2017 | Granted during the Year | Exercised during the Year | Cancelled during the Year | Lapsed during the Year | Outstanding as at 31.12.2017 | Market value per share at date of grant of options HKD | Option value per share HKD |
|---|---|---|---|---|---|---|---|---|---|---|---|
| (a) OTHERS | 03.01.2012 | 03.01.2012–02.01.2017 | 0.5311 | 20,617,025 | – | – | – | (20,617,025) | – | 0.4400 | 0.1426 |
| | 10.01.2012 | 10.01.2012–09.01.2017 | 0.5311 | 3,389,100 | – | – | – | (3,389,100) | – | 0.4400 | 0.1287 |
| Total for Others | | | | 24,006,125 | – | – | – | (24,006,125) | – | | |
| Total for Scheme | | | | 24,006,125 | – | – | – | (24,006,125) | – | | |

As at 31 December 2017, no share options were outstanding under the 2004 Share Option Scheme. No further options will be granted under the 2004 Share Option Scheme. The total number of shares of the Company issuable pursuant to the 2014 Share Option Scheme on the date of its adoption was 2,649,007,613 shares of the Company, representing 9.79% of the issued share capital of the Company as at the date of this annual report and there was no share option granted, exercised, cancelled or lapsed under the 2014 Share Option Scheme as at the date of this annual report.

## VALUATION OF SHARE OPTIONS

The valuation of share options is set out in note 29 to the financial statements contained in this annual report.

## RETIREMENT BENEFIT SCHEME

Details of the Group's retirement benefit scheme for the Year are set out in note 37 to the financial statements contained in this annual report.

## DIRECTORS' AND EXECUTIVE OFFICERS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section headed "Directors and Executive Officers' Interests in Securities" disclosed above, at no time during the Year was the Company or its subsidiaries or jointly controlled entity a party to any arrangement that enabled any Director or Executive Officer to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

Save as disclosed above, none of the Directors or Executive Officers or their spouses or children under the age of 18 had any right to subscribe for the securities of the Company or had exercised any such right during the Year.

# DIRECTORS' REPORT

## DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

Saved as disclosed in note 11A to the financial statements contained in this annual report, no contracts of significance to which the Company or any of its subsidiaries was a party and in which a Director or any of its subsidiaries had a material interest, whether directly or indirectly, subsisted at the end of the Year or at any time during the Year.

## DIRECTORS' INTEREST IN COMPETING BUSINESS

During the Year and up to the date of this annual report, except otherwise disclosed, 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.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of its independent non-executive Directors written confirmation of their independence pursuant to Rule 3.13 of the Listing Rules.

## DISCLOSEABLE INTERESTS AND SHORT POSITIONS OF PERSONS OTHER THAN DIRECTORS AND EXECUTIVE OFFICERS

As at 31 December 2017, so far as known to the Directors or Executive Officers of the Company, the following persons/entities are the shareholders (other than the Directors or Executive Officers of the Company) who had interests or short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or be directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances of general meetings of the Company or who were recorded in the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO or had otherwise notified the Company.

### Long positions in shares and underlying shares of the Company

| Name of shareholders | Capacity | Number of shares/ underlying shares | Approximate % of the issued share capital of the Company | Notes |
|---|---|---|---|---|
| CST Group Limited ("CST") (formerly known as NetMind Financial Holdings Limited) | Interest of a controlled corporation | 4,626,958,790 (L) | 17.10% | 2 |
| Skytop Technology Limited ("Skytop") | Beneficial owner | 4,626,958,790 (L) | 17.10% | 2 |

Notes:

1. "L" denotes long position.
2. CST is the ultimate beneficial owner of Skytop. Under Part XV of the SFO, CST is deemed to have interest in the shares of the Company held by Skytop.

Save as disclosed above, the Company has not been notified by any person (other than the Directors or Executive Officers of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or be directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances of general meetings of the Company or who were recorded in the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO or had otherwise notified the Company as at 31 December 2017.

# DIRECTORS' REPORT

## MAJOR CUSTOMERS AND SUPPLIERS

The aggregate revenue attributable to the five largest customers accounted for approximately 42% of the Group's total revenue for the Year, and the revenue attributable to the largest customer included therein amounted to approximately 12% of the Group's total revenue for the Year. The Group is a provider of financial services. In the opinion of the Board, it is therefore of no value to disclose details of the Group's suppliers.

At no time during the Year, none of the Directors, their associate or the shareholders of the Company, which to the knowledge of the Directors owned more than 5% of the Company's issued share capital, had any interests in the above customers.

## PRE-EMPTIVE RIGHTS

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

## PERMITTED INDEMNITY PROVISION

A permitted indemnity provision under the Bye-laws of the Company and for the benefit of the Directors is currently in force and was in force throughout the financial year. The Company has also purchased and maintained Directors' liability insurance throughout the Year, which provides appropriate coverage for the Directors.

## RISK FACTORS

### Market Risk

Market risk refers to the risk that a change in the level of one or more market prices, rates, indices, implied volatilities (the price volatility of the underlying instrument imputed from option prices), correlations or other market factors, such as market liquidity, will result in losses for a position or portfolio owned by us.

*Our results of operations may be materially affected by market fluctuations and by global and economic conditions and other factors.*

The Group's results of operations may be materially affected by market fluctuations due to global and economic conditions and other factors. Our results of operations in the past have been, and in the future may be, materially affected by many factors, including the effect of economic and political conditions and geopolitical events; the effect of market conditions, particularly in the global equity, fixed income, currency, credit and commodities markets, including corporate and mortgage (commercial and residential) lending and commercial real estate; the impact of current, pending and future legislation, regulation (including capital, leverage and liquidity requirements), policies (including fiscal and monetary), and legal and regulatory actions in Hong Kong and worldwide; the level and volatility of equity, fixed income and commodity prices, interest rates, currency values and other market indices; the performance of our acquisitions, divestitures, joint ventures, strategic alliances or other strategic arrangements; our reputation and the general perception of the financial services industry; inflation, natural disasters, pandemics and acts of war or terrorism; the actions and initiatives of current and potential competitors, as well as governments, regulators and self-regulatory organisations; the effectiveness of our risk management policies; and technological changes and risks and cybersecurity risks (including cyber-attacks and business continuity risks); or a combination of these or other factors. In addition, legislative, legal and regulatory developments related to our businesses are likely to increase costs, thereby affecting results of operations. These factors also may have an adverse impact on our ability to achieve our strategic objectives.

*We may experience declines in the value of our financial instruments and other losses related to volatile and illiquid market conditions.*

Market volatility, illiquid market conditions and disruptions in the credit markets make it extremely difficult to value certain of our financial instruments, particularly during periods of market displacement. Subsequent valuations, in light of factors then prevailing, may result in significant changes in the values of these instruments in future periods. In addition, at the time of any sales and settlements of these financial instruments, the price we ultimately realise will depend on the demand and liquidity in the market at that time and may be materially lower than their current fair value. Any of these factors could cause a decline in the value of our financial instruments, which may have an adverse effect on our results of operations in future periods.

# DIRECTORS' REPORT

In addition, financial markets are susceptible to severe events evidenced by rapid depreciation in asset values accompanied by a reduction in asset liquidity. Under these extreme conditions, hedging and other risk management strategies may not be as effective at mitigating trading losses as they would be under more normal market conditions. Moreover, under these conditions market participants are particularly exposed to trading strategies employed by many market participants simultaneously and on a large scale. Our risk management and monitoring processes seek to quantify and mitigate risk to more extreme market moves. However, severe market events have historically been difficult to predict, as seen in the last several years, and we could realise significant losses if extreme market events were to occur.

The Group is required to reassess the fair value of its investment properties at every balance sheet date to which financial statements are made up. Based on the appraisal conducted by independent property valuer, the Group recognises investment properties at fair value in the consolidated statement of financial position, while the variation in changes in fair value of investment properties are recognised in the consolidated statement of profit or loss. Notwithstanding any variations in profit, fair value gains and losses are not cash items and will not increase or decrease cash and cash equivalent. The amount of revaluation adjustment has been and will continually be subject to changes in market conditions. As such, there can be no assurance that changes in market conditions will continue to generate gains from fair value changes in investment properties at similar level or at all, or there will be no decline in the fair value of the Group's investment properties.

The Group faces market risk due to market movement which may cause a fall in the value of principal investments. In view of the increased volatility in the stock and other financial markets, this may impact the fair value of the investments and add unpredictability to the Group's profits and investment revaluation reserve.

*Currency fluctuations may affect our results of businesses adversely.*

The results of the Group are presented in United States Dollars, but the Company and its various subsidiaries may receive revenue, incur expenses and make investments in other currencies. Any currency fluctuations on translation of the accounts of the Company and these subsidiaries and also on the repatriation of earnings and equity investments may therefore impact on the Group's businesses. Exchange rate of United States Dollars against other foreign currencies is affected by, among other things, changes in the political and economic environment of the issuing jurisdictions of the currencies. The appreciation or depreciation in United States Dollars against other foreign currencies may materially affect the Group's businesses, financial condition, results of operations and growth prospects.

*Holding large and concentrated positions may expose us to losses.*

Concentration of risk may reduce revenues or result in losses in our market-making, investing, block trading, underwriting and lending businesses in the event of unfavourable market movements. We commit substantial amounts of capital to these businesses, which often results in our taking large positions in the securities of, or making large loans to, a particular issuer or issuers in a particular industry, country or region.

*Technological changes and risks and cybersecurity risks may affect our businesses to a certain extent.*

Notwithstanding the appropriate measures adopted to protect the Group's computer system and information, the Group cannot assure that there will be no occurrence of unlawful break-ins or misuse with rapid technological advancement, which may affect our businesses to a certain extent.

## Credit Risk

Credit risk refers to the risk of loss arising when a borrower, counterparty or issuer does not meet its financial obligations to us.

*We are exposed to the risk that third parties that are indebted to us will not perform their obligations.*

This risk may arise from a variety of business activities, including but not limited to entering into swap or other derivative contracts under which counterparties have obligations to make payments to us; extending credit to clients through various lending commitments; providing short or long-term funding that is secured by physical or financial collateral whose value may at times be insufficient to fully cover the loan repayment amount; posting margin and/or collateral and other commitments to clearing houses, clearing agencies, exchanges, banks, securities firms and other financial counterparties; and investing and trading in securities and loan pools whereby the value of these assets may fluctuate based on realised or expected defaults on the underlying obligations or loans.

# DIRECTORS' REPORT

Although we regularly review our credit exposures, default risk may arise from events or circumstances that are difficult to detect or foresee. We use an internal credit assessment process to assess the potential borrower's credit quality and define credit limits granted to borrowers. We may suffer loss on loans receivable if the repayment of principal and/or interest is not paid on due date and the market value of collaterals, such as shares in companies listed on the Stock Exchange or certain properties in Hong Kong, fluctuate below the principal of the loans receivable and/or interest.

### Legal, Regulatory and Compliance Risk

Legal, regulatory and compliance risk includes the risk of legal or regulatory sanctions, material financial loss including fines, penalties, judgments, damages and/or settlements, or loss to reputation we may suffer as a result of our failure to comply with laws, regulations, rules, related self-regulatory organisation standards and codes of conduct applicable to our business activities. This risk also includes contractual and commercial risk such as the risk that a counterparty's performance obligations will be unenforceable. In today's environment of rapid and possibly transformational regulatory change, we also view regulatory change as a component of legal, regulatory and compliance risk.

### The financial services industry is subject to extensive regulation, which is undergoing major changes that will impact our business.

The Group oversees potential compliance risks, such as inside dealing, money laundering, on a regular basis. With the support of external professional advisers where appropriate, the Group monitors whether and the extent to which additional regulatory requirements apply as a result of the growth or expansion of our business and operations in financial services business.

Like other major financial services firms, we are subject to extensive regulations, which significantly affect the way we do business and can restrict the scope of our existing businesses and limit our ability to expand our product offerings and pursue certain investments. The Group is and will continue to be subject to a more complex regulatory framework, and will incur costs to comply with new requirements as well as to monitor for compliance in the future.

## ENVIRONMENTAL POLICIES

The Group is committed to building an environmentally-friendly corporation that pays close attention to conserving natural resources. The Group strives to minimise its environmental impact by saving electricity and encouraging recycle of office supplies and other materials.

In accordance with Rule 13.91 of the Listing Rules, the Company will publish an Environmental, Social and Governance ("ESG") Report within three months after the publication of this annual report in compliance with the provisions set out in the ESG Reporting Guide in Appendix 27 to the Listing Rules.

## COMPLIANCE WITH REGULATIONS

The Group is not aware of any instances of material breach of or non-compliance with the applicable laws and regulations such as the Hong Kong Companies Ordinance (Chapter 622 of the Laws of Hong Kong), Listing Rules, and other applicable local laws and regulations in various jurisdictions during the Year and up to the date of this annual report.

## RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The sustainability of the Group's business relies on the growth of the Group's employees. Remuneration packages of the employees are generally structured with reference to prevailing market terms and individual qualifications. Salaries and wages are normally reviewed on an annual basis based on performance appraisals and other relevant factors.

Apart from salary payments, there are other staff benefits including mandatory provident fund, medical insurance and performance related bonus. Share options may also be granted to eligible employees by the Group.

Relationship is the fundamentals of business. The Group fully understands this principal and thus maintains good relationship with its stakeholders, including but not limited to our customers, borrowers and tenants.

# DIRECTORS' REPORT

## EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the Board on the basis of their merit, qualifications and competence. The emoluments of the Directors are decided by the Directors, who are authorised by the shareholders in the AGM, having regard to the Group's operating results, individual performance and comparable market statistics. The Company has adopted a share option scheme as an incentive to Directors and eligible employees, details of which are set out in note 29 to the financial statements contained in this annual report.

## PUBLIC FLOAT

From information publicly available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed public float under the Listing Rules at all times during the Year under review and as at the date of this annual report.

## CORPORATE GOVERNANCE

The information set out on pages 20 to 32 of this annual report and information incorporated by reference, if any, constitutes the Corporate Governance Report of the Company.

## AUDIT COMMITTEE

The Company has established an audit committee with written terms of reference based upon the recommendations set out in *A Guide for Effective Audit Committees* published by the Hong Kong Institute of Certified Public Accountants and the code provisions set out in the Corporate Governance Code (as defined below). The duties of the audit committee include reviewing the Company's annual reports and interim reports and providing advice and comments thereon to the Directors. The audit committee is also responsible for reviewing and supervising the financial reporting, risk management and internal control procedures of the Group.

As at the date of this annual report, the audit committee comprises three independent non-executive Directors, namely, Mr Lo Wa Kei, Roy, Mr Chen Gong, and Mr Martin Que Meideng, with Mr Lo Wa Kei, Roy being the chairman of the audit committee. The audited financial statements of the Company for the Year have been reviewed by the audit committee.

## AUDITORS

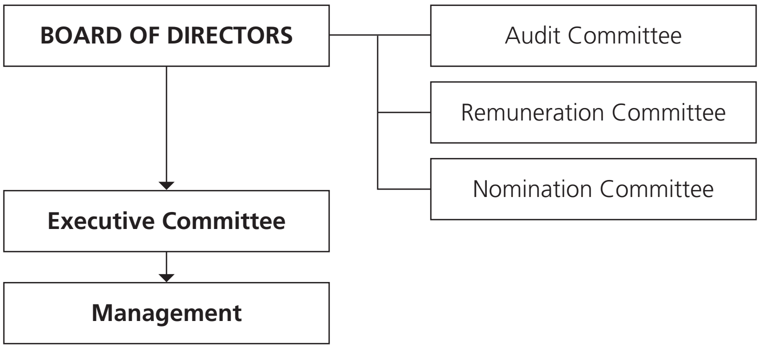
The consolidated financial statements of the Group for the Year have been audited by Deloitte Touche Tohmatsu who shall retire and, being eligible, offer themselves for re-appointment in the forthcoming AGM. A resolution for their re-appointment as auditors of the Company will be proposed at the forthcoming AGM.

On behalf of the Board

**Chiu Tao**
*Chairman and Acting Chief Executive Officer*
Hong Kong, 29 March 2018

# CORPORATE GOVERNANCE REPORT

## ORGANISATION CHART OF THE GROUP AND VARIOUS BOARD COMMITTEES




The Group is committed to maintaining a high standard of corporate governance and enhancing its transparency so as to protect shareholders' interests in general. The Group will continue to raise the standard by formalising the best practices of corporate governance as far as possible.

The Company has adopted the principles and complied with the Corporate Governance Code and Corporate Governance Report (the "Corporate Governance Code") as set out in Appendix 14 to the Listing Rules for the Year, except for the deviations as set out below:

(i) Mr Chiu Tao has become acting Chief Executive Officer ("CEO") of the Company from 30 June 2015. The Board has not yet identified suitable candidate to fill in the vacancy for CEO in compliance with the requirement of code provision A.2.1 under the Corporate Governance Code. Under code provision A.2.1, the roles of chairman and CEO should be separated and should not be performed by the same individual. Mr Chiu Tao, who acts as the chairman and the acting CEO of the Company, is also responsible for the overall business strategy and development and management of the Group. The Board will meet regularly to consider major matters affecting the operations of the Group. The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Company. The roles of the respective executive Directors and senior management, who are in charge of different functions, complement the role of the chairman and the CEO. The Board believes that this structure is conducive to strong and consistent leadership which enables the Group to operate efficiently. As such, the structure is beneficial to the Group and the shareholders of the Company as a whole;

(ii) following the retirement of Dr Or Ching Fai on 30 June 2017, the Board had only two independent non-executive Directors, thus fell below the requirements under Rules 3.10(1), 3.21 and 3.25 of the Listing Rules and deviated code provision A.5.1 of the Corporate Governance Code. Following the appointment of Mr Lo Wa Kei, Roy as the independent non-executive Director on 17 July 2017, the Company has complied with the relevant Listing Rules and code provision under the Corporate Governance Code as stated above;

(iii) under code provision A.2.7, the chairman should at least annually hold meetings with the non-executive Directors (including independent non-executive Directors) without the executive Directors present. During the Year, a formal meeting could not be arranged between the chairman of the Board and the independent non-executive Directors without the executive Directors present due to their tight schedules. Although such meeting was not held during the Year, the chairman of the Board could be contacted by email or phone to discuss any potential concerns and/or questions that the independent non-executive Directors might have and would arrange to set up follow-up meetings, whenever necessary; and

(iv) according to code provision E.1.2, Mr Chiu Tao, the chairman of the Board, should have attended the AGM of the Company held on 30 June 2017 ("2017 AGM"). However, Mr Chiu Tao was unable to attend the 2017 AGM due to another business commitment. Mr Leung Oi Kin, executive Director and company secretary of the Company, who took the chair of the 2017 AGM, together with other members of the Board who attended the 2017 AGM were of sufficient caliber and knowledge for answering questions at the 2017 AGM.

# CORPORATE GOVERNANCE REPORT

## BOARD OF DIRECTORS

As at the date of this annual report, the Board comprised five executive Directors and three independent non-executive Directors ("INED(s)").

Save as disclosed under the section headed "Biographical Details of Directors and Senior Management" of this annual report, there is no financial, business, family or other material/relevant relationship between the Directors and the Board, which comprised the following:

### Executive Directors

Chiu Tao *(Chairman and Acting Chief Executive Officer)*
Ma Xiao *(Deputy Chief Executive Officer)*
Wah Wang Kei, Jackie
Leung Oi Kin
Leung Wai Yiu, Malcoln

### Independent Non-Executive Directors

Lo Wa Kei, Roy
Chen Gong
Martin Que Meideng

The principal functions of the Board are to supervise the management of the business and Company's affairs; to approve the Company's strategic plans, investment and funding decisions; to review the Group's financial performance and operative initiatives.

The role of the INEDs is to bring an independent and objective view to the Board's deliberations and decisions. The INEDs must have appropriate professional qualifications, or accounting or related financial management expertise, so that they are of sufficient calibre and number for their views to carry weight. The INEDs may also take independent professional advice at the Company's expense in carrying out their functions.

The Board considers the current board size as adequate for its present operations. The day-to-day running of the Company is delegated to the senior management team, with divisional heads responsible for different aspects of the business. The Board is characterised by significant diversity, whether considered in term of gender, nationality, professional background and skills. The Board has adopted the Board Diversity Policy. The Nomination Committee is responsible for reviewing and assessing Board composition and its effectiveness on an annual basis.

The Company has received from each of the INEDs an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the INEDs to be independent.

The Board is responsible for overseeing the development of good corporate governance practice of the Group.

### Role and Function on Corporate Governance

- to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board
- to review and monitor the training and continuous professional development of Directors and senior management
- to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements
- to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors
- to review the Company's compliance with the Corporate Governance Code and disclosure in this Corporate Governance Report

# CORPORATE GOVERNANCE REPORT

### Summary of work during the Year

- reviewed and monitored the Company's policies and practices on compliance with legal and regulatory requirements
- reviewed the terms of reference of the Audit Committee, Remuneration Committee and Nomination Committee
- reviewed the Company's compliance with the Corporate Governance Code and disclosure in this Corporate Governance Report
- arranged suitable training for Directors, placing an appropriate emphasis on the roles, functions and duties of a listed company director
- reviewed and approved the financial results of the Company and announcements thereof
- reviewed and updated the Board Diversity Policy

## BOARD COMMITTEES

### Executive Committee ("EC")

The Board has delegated the management of the daily operation and investment matters of the Group to the EC. As at the date of this annual report, the EC comprised five members of the Board, namely:

#### EC Members

Chiu Tao
Ma Xiao
Wah Wang Kei, Jackie
Leung Oi Kin
Leung Wai Yiu, Malcoln

### Audit Committee

As at 31 December 2017, the Audit Committee comprised three members, all of whom are INEDs, namely:

#### Audit Committee Members

Lo Wa Kei, Roy *(Chairman)*
Chen Gong
Martin Que Meideng

The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control procedures of the Group.

The terms of reference of the Audit Committee have been reviewed with reference to the Corporate Governance Code. The terms of reference of the Audit Committee are posted on the websites of the Company and the Stock Exchange and are also available from the Company Secretary on request.

In accordance with the terms of reference of the Audit Committee, the Audit Committee meets at least twice a year to review the interim results and the final results of the Company. The terms of reference of the Audit Committee are aligned with the recommendations set out in *A Guide For Effective Audit Committees* issued by the Hong Kong Institute of Certified Public Accountants and the code provisions set out in the Corporate Governance Code.

# CORPORATE GOVERNANCE REPORT

## Role and Function

- to be primarily responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and terms of engagement of external auditor, any questions of its resignation or dismissal
- to develop and implement policy on engaging an external auditor to supply non-audit services
- to review the Group's financial and accounting policies and practices
- to consider major investigation findings on risk management and internal control matters as delegated by the Board or on its own initiative and management's response to these findings
- to review the Group's financial controls, and unless expressly addressed by a separate board risk committee, or by the board itself, to review the Group's risk management and internal control systems
- to discuss the risk management and internal control system with management to ensure that management has performed its duty to have an effective systems
- where an internal audit function exists, to ensure co-ordination between the internal and external auditors, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Group, and to review and monitor its effectiveness
- to monitor integrity of the Company's financial statements and annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and to review significant financial reporting judgments contained in them
- to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The Audit Committee should discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences
- to consider other topics, as defined by the Board
- to ensure that the Board will provide a timely response to the issues raised in the external auditor's management letter
- to report to the Board on the matters contained in code provision of the Corporate Governance Code in Appendix 14 to the Listing Rules
- to review the external auditor's management letter, any material queries raised by the auditor to management about accounting records, financial accounts or systems of control and management's response
- to review arrangements employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters
- to establish a whistleblowing policy and system for employees and those who deal with the Group (e.g. customers and suppliers) to raise concerns, in confidence, with the Audit Committee about possible improprieties in any matter related to the Group
- to act as the key representative body for overseeing the Company's relations with the external auditor

# CORPORATE GOVERNANCE REPORT

### Summary of work during the Year

- reviewed and made recommendation for the Board's approval for the draft 2017 interim report, annual report and accounts
- reviewed management letter, tax issues, compliance and salient features of 2017 annual accounts presented by Deloitte Touche Tohmatsu, the external auditor
- reviewed the enhancements to the 2017 audit planning process
- approved the audit and non-audit services provided by Deloitte Touche Tohmatsu
- reviewed Deloitte Touche Tohmatsu's fees proposal for the 2017 audit work for the Group
- discussed, examined and reviewed 2017 annual accounting and financial reporting issues
- reviewed and monitored the external auditor's independence and objectivity and the effectiveness of the audit process
- reviewed the terms of reference of the Audit Committee
- reviewed the Whistleblowing Policy
- discussed, assessed and reviewed the reports, on internal control and risk management system and its effectiveness for the Year

## Remuneration Committee

As at 31 December 2017, the Remuneration Committee comprised three members, all of whom are INEDs, namely:

### Remuneration Committee Members

Lo Wa Kei, Roy *(Chairman)*
Chen Gong
Martin Que Meideng

The primary function of the Remuneration Committee is to make recommendations to the Board on the remuneration packages of individual executive Directors and senior management. The remuneration packages include benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment.

The terms of reference of the Remuneration Committee have been reviewed with reference to the Corporate Governance Code. The terms of reference of the Remuneration Committee are posted on the websites of the Company and the Stock Exchange and are also available from the Company Secretary on request.

The details of the remuneration payable to the Directors and members of senior management are set out in note 11 to the financial statements contained in this annual report.

# CORPORATE GOVERNANCE REPORT

### Role and Function

- to make recommendations to the Board on the Company's policy and structure for all Directors and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy
- to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate
- to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives
- to consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group
- to make recommendations to the Board on the remuneration packages of individual executive Directors and senior management which include benefits in kind, pension rights and compensation payments (including any compensation payable for loss or termination of their office or appointment)
- to review and approve compensation payable to executive Directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and is otherwise fair and not excessive
- to make recommendations to the Board on the remuneration of non-executive Directors
- to ensure that no Director or any of his associates is involved in deciding his own remuneration
- to review the proposals for the award of share options to executive Directors and senior management based on their performance and contribution to the Company from time to time
- to recommend to the Board the structure of long-term incentive plans for executive Directors and certain senior management

### Summary of work during the Year

- reviewed and recommended the remuneration and bonus of executive Directors and senior management
- reviewed the terms of reference of the Remuneration Committee
- conducted an annual review of the remuneration packages for executive Directors, non-executive Directors and senior management based on their performance
- recommended to the Board on the remuneration package of the new INEDs

## Nomination Committee

As at 31 December 2017, the Nomination Committee comprised the Chairman of the Company and two INEDs, namely:

### Nomination Committee Members

Chiu Tao *(Chairman)*
Lo Wa Kei, Roy
Chen Gong

The primary duties of the Nomination Committee are to develop and maintain a formal and transparent process for the appointment and re-appointment of members of the Board. The Nomination Committee also reviews and assesses Board composition and its effectiveness on an annual basis.

The terms of reference of the Nomination Committee have been reviewed with reference to the Corporate Governance Code. The terms of reference of the Nomination Committee are posted on the websites of the Company and the Stock Exchange and are also available from the Company Secretary on request.

# CORPORATE GOVERNANCE REPORT

### Role and Function

- to review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy
- to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships
- to establish a policy concerning diversity of Board members
- to make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the chairman and the chief executive
- to assess the independence of independent non-executive Directors

### Summary of work during the Year

- reviewed and updated the Board Diversity Policy
- reviewed and assessed the structure, size and composition (including the skills, knowledge and experience) of the Board and its effectiveness
- assessed the independence of INEDs and confirmed that all INEDs are considered independent
- reviewed the terms of reference of the Nomination Committee
- proposed the Directors for re-election at AGM
- selected and recommended to the Board the appointment of Mr Lo Wa Kei, Roy, Mr Chen Gong and Mr Martin Que Meideng as INEDs, on the basis of their qualifications, skill and experience

## BOARD DIVERSITY

The Board has adopted a Board Diversity Policy.

### 1. Vision

The Company sees diversity at Board level as an important element in maintaining a high standard of corporate governance. The Company is committed to a diverse Board, so Directors from diverse backgrounds could present the Company effectively to various constituencies, and to bring previously unheard perspective into the boardroom.

### 2. Policy Statement

(a) The Company aspires to maintain an appropriate range and balance of skills, experience and background on the Board. In determining the optimum composition of the Board, differences in the 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 the skills and experience the Board as a whole requires to be effective, with due regard for the benefits of diversity on the Board.

(b) The Nomination Committee will review and assess 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.

# CORPORATE GOVERNANCE REPORT

### 3. Monitoring and Reporting

The Nomination Committee will report annually in the Corporate Governance Report in the annual report, on the composition of the Board (including gender, age, length of service, education background, working experience), and monitor the implementation of the Board Diversity Policy.

The Nomination Committee, having reviewed the Board's composition and considered the Board Diversity Policy, nominated three INEDs to fill in vacancies of the Board during the Year and recommended the appointment of the said Directors to the Board.

## COMPANY SECRETARY

The Company Secretary, Mr Leung Oi Kin, plays the role in supporting the Board by ensuring good information flow within the Board, as well as communications with our Shareholders and management. The Company Secretary's biography is set out in the section headed "Biographical Details of Directors and Senior Management" of this annual report. For the Year, the Company Secretary undertook 15 hours of professional training to update his skills and knowledge as required under Rule 3.29 of the Listing Rules.

## ATTENDANCES OF MEETINGS

The Board will also conduct meetings on a regular basis and on an ad hoc basis, as required by business needs. The Bye-laws of the Company allow Board meetings to be conducted by way of telephone or videoconference. The Board held a total of four full Board meetings during the Year.

Details of Directors' attendance at the AGM, Board and Board committees' meetings held during the Year are set out in the following table:

| | Meeting Attended/Held | | | | |
|---|---|---|---|---|---|
| Name of Directors | Board of Directors | Audit Committee | Remuneration Committee | Nomination Committee | 2017 AGM[5] |
| **EXECUTIVE DIRECTORS** | | | | | |
| Chiu Tao[1,4] | 3/4 | – | – | 1/1 | 0/1 |
| Ma Xiao[1] | 3/4 | – | – | – | 0/1 |
| Wah Wang Kei, Jackie[1] | 3/4 | – | – | – | 1/1 |
| Leung Oi Kin[1] | 4/4 | – | – | – | 1/1 |
| Leung Wai Yiu, Malcoln[1] (appointed on 16 April 2018) | 0/0 | – | – | – | 0/0 |
| **INDEPENDENT NON-EXECUTIVE DIRECTORS** | | | | | |
| Or Ching Fai[2,3,4] (retired on 30 June 2017) | 1/1 | 1/1 | 1/1 | 1/1 | 0/1 |
| Lo Wa Kei, Roy[2,3,4] (appointed on 17 July 2017) | 3/3 | 1/1 | 0/0 | 0/0 | 0/0 |
| Chen Gong[2,3,4] (appointed on 3 February 2017) | 4/4 | 2/2 | 1/1 | 1/1 | 1/1 |
| Martin Que Meideng[2,3] (appointed on 3 February 2017) | 4/4 | 2/2 | 1/1 | – | 1/1 |

Notes:
1. Executive Committee members.
2. Audit Committee members.
3. Remuneration Committee members.
4. Nomination Committee members.
5. The AGM for the year 2016 was held on 30 June 2017.

# CORPORATE GOVERNANCE REPORT

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Pursuant to code provision A.2.1 under the Corporate Governance Code, the roles of chairman and CEO should be separated and should not be performed by the same individual. Mr Chiu Tao, who acts as the chairman and the acting CEO of the Company, is also responsible for the overall business strategy and development and management of the Group. The Board will meet regularly to consider major matters affecting the operations of the Group. The Board considers that this structure will not impair the balance of power and authority between the Board and the management of the Company. The roles of the respective executive Directors and senior management, who are in charge of different functions, complement the role of the chairman and the CEO. The Board believes that this structure is conducive to strong and consistent leadership which enables the Group to operate efficiently. As such, the structure is beneficial to the Group and the shareholders of the Company as a whole.

## DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code contained in Appendix 10 to the Listing Rules, as the code of conduct regarding Directors' securities transactions. Having made specific enquiry of all Directors, the Company confirmed that all Directors have complied with the required standard set out in the Model Code throughout the Year under review.

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group and in presenting the interim and annual financial statements and announcements to shareholders, the Directors aim to present a balanced and understandable assessment of the Group's position and prospects.

## AUDITOR'S REMUNERATION

For the Year, the Group engaged Deloitte Touche Tohmatsu, auditors of the Company, to perform audit service. Their reporting responsibilities on the financial statements of the Group are set out in the Independent Auditor's Report on pages 33 to 37 of this annual report.

The services provided by Deloitte Touche Tohmatsu and the fees thereof were as follows:

| **Nature of services** | **For the year ended 31 December 2017** USD'000 |
|---|---|
| Audit services | 234 |
| Non-audit services in relation to tax advisory and other professional and advisory services | 11 |
| | 245 |

## SUPPLY AND ACCESS TO INFORMATION

The financial plans, including budgets and forecasts, are regularly discussed at Board meetings. Monthly reports to all Directors (including non-executive Directors) are issued, covering financial and operating highlights.

## INTERNAL CONTROL AND RISK MANAGEMENT

The Board has overall responsibility for maintaining a sound and effective internal control system for the Group. The Group's system of internal control, which includes a defined management structure with limits of authority, is designed to help the achievement of business objectives, safeguard assets against their unauthorised use or disposition, ensure the maintenance of proper accounting records for the provision of reliable financial information for internal use or for publication, and ensure compliance with relevant legislations and regulations. The system is designed to provide reasonable, but not absolute, assurance against material misstatement or loss and to manage rather than eliminate risks of failure in operational systems and achievement of the Group's objectives.

# CORPORATE GOVERNANCE REPORT

The Board is responsible for the Group's system of internal controls and for reviewing its effectiveness. The Board adopts a "top-down" and "bottom-up" approach on the Group's risk management. The Audit Committee supports the Board in monitoring the Group's risk exposures, the design and implementation effectiveness of the current risk management and internal controls systems. Management assesses and presents regular reports at the meetings of the Audit Committee on its own assessments of key risks, the strengths and weaknesses of the overall internal controls systems, with action plans to address the weaknesses. The independent internal auditor engaged by the Group regularly reports on reviews of the business processes and activities, including action plans to address any identified control weaknesses. External auditors also report on any control issues identified in the course of their work.

The abovementioned system enables the Group to (i) systematically and thoroughly identify and assess all major risks which threaten the achievement of business objectives, (ii) optimise business opportunities and secure continuation of business, (iii) recognise and identify uncertainties and subsequently develop the prediction of risks and measures needed to manage risks, (iv) ensure the compliance with relevant rules and regulations, and (v) be cost-effective in risk management to avoid adopting unnecessary control and management procedures.

The Company has implemented proper procedures and internal controls for the handling and dissemination of inside information to ensure that all current and prospective investors of the Company and public are provided with appropriate information relating to the Group in a timely and simultaneous manner. The Group has a set of control process for management of communications with shareholders and investors and prohibition of the unauthorised use of confidential or non-public information. In general, the authorised spokespersons only make clarification and explanation on data that are available on the market, and avoid providing or divulging any unpublished inside information either by an individual or by a team. Before conducting any external interview, if the authorised spokespersons have any doubt about the data to be disclosed, they would seek verification from the relevant person or the person-in-charge of the relevant department, so as to determine if such data is accurate. In addition, discussions on the Company's key financial data or other financial indicators are prohibited during the blackout periods under the Listing Rules.

Taking these into consideration, the Audit Committee reviews the effectiveness of the Group's system of internal controls and reports to the Board on such reviews. The Board, through the Audit Committee, has effectively assessed internal controls and risk management system in place for the Group and the Board is satisfied that the Group has fully complied with the code provisions of the Corporate Governance Code on internal control during the Year.

During the Year, the Group engaged an independent internal auditor to review and assess its internal control system. The review covered parts of the system including risks, operational, financial and compliance controls. The Board is of the view that the Group's current internal control review system is adequate and effective but will perform periodical reviews so as to improve and safeguard our internal control system.

The Audit Committee has established and adopted a whistleblowing policy and system for employees and those who deal with the Company (e.g. customers and suppliers) to raise concerns, in confidence, with the Audit Committee about possible improprieties in any matter related to the Company. The whistleblowing policy is posted on the websites of the Company and is also available from the Company Secretary on request.

## DIRECTORS' COMMITMENTS

The Company has received confirmation from each Director that he has given sufficient time and attention to affairs of the Company for the Year. Directors have disclosed to the Company the number and nature of offices held in Hong Kong or overseas listed public companies or organisations and other significant commitments, with the identity of the public companies or organisations and an indication of the time involved. Directors are also reminded to notify the Company Secretary in a timely manner and bi-annually confirm to the Company Secretary any change of such information. In respect of those Directors who stand for re-election at the AGM in 2018, all their directorships held in listed public companies in the past three years (if any) will be set out in the notice of AGM in 2018.

## PARTICIPATION IN CONTINUOUS PROFESSIONAL DEVELOPMENT PROGRAMME IN 2017

During the Year, Directors received regular updates and presentations on changes and developments to the Group's business and to the legislative and regulatory environments in which the Group operates. All Directors are also encouraged to attend relevant training courses at the Company's expense. With effect from 1 January 2012, all Directors are required to provide the Company with his or her training record.

# CORPORATE GOVERNANCE REPORT

During the Year, the Company arranged a seminar on 18 December 2017 on compliance with legal and regulatory requirements to the Directors. The seminar covered the topic of continuing obligations of a Hong Kong listed company and its directors. Most of the Directors have attended the seminar.

| | Reading Regulatory Updates | Attending expert briefings/seminars/ conferences relevant to the business or Directors' duties |
|---|---|---|
| **EXECUTIVE DIRECTORS** | | |
| Chiu Tao | ✓ | ✓ |
| Ma Xiao | ✓ | ✓ |
| Wah Wang Kei, Jackie | ✓ | ✓ |
| Leung Oi Kin | ✓ | ✓ |
| **INDEPENDENT NON-EXECUTIVE DIRECTORS** | | |
| Lo Wa Kei, Roy | ✓ | ✓ |
| Chen Gong | ✓ | ✓ |
| Martin Que Meideng | ✓ | ✓ |

## INSURANCE ARRANGEMENT

Pursuant to the code provision A.1.8 under the Corporate Governance Code, the Company should arrange appropriate insurance to cover potential legal actions against its Directors. The Company has renewed its corporate liability insurance purchased for its Directors and senior management.

## TERM OF APPOINTMENT OF NON-EXECUTIVE DIRECTORS

The Corporate Governance Code stipulates that non-executive directors should be appointed for a specific term and subject to re-election. All INEDs have signed the letters of appointment with the Company for a term of three years but they continue to be subject to retirement by rotation and re-election at AGM under the Bye-laws of the Company.

## MEMORANDUM OF ASSOCIATION AND BYE-LAWS

During the Year, there were no changes to the Memorandum of Association and Bye-Laws of the Company. The latest consolidated version of the Memorandum of Association and Bye-Laws of the Company is available on the websites of the Company and the Stock Exchange.

## SHAREHOLDERS' RIGHT AND COMMUNICATION

We have been reporting our financial and non-financial results in a transparent fashion. Besides the annual report and the interim report, we published and released, from time to time, announcements and press releases.

The Company's corporate website – www.g-resources.com, provides an excellent channel for our shareholders and other interested parties to access information about the Company. Shareholders can find from the website all key corporate information and information of the Company including but not limited to:

- Financial Reports
- Announcements and Press Releases
- Information on Change of Share Capital
- Circulars
- Press Releases

# CORPORATE GOVERNANCE REPORT

- Terms of Reference of the various Board Committees
- Shareholders Communication Policy
- Whistleblowing Policy
- Board Diversity Policy
- Shareholders' Rights

Shareholders are encouraged to attend all general meetings of the Company and have the right to convene special general meetings, if shareholders find necessary.

The Company arranges for the notice to its shareholders to be sent at least 20 clear business days before each of the AGMs of the Company in accordance with code provision E.1.3 of the Corporate Governance Code. Separate resolutions are proposed at the AGMs on each substantially separate issue, including the election or re-election of each individual Director.

## SHAREHOLDERS' RIGHTS ON CONVENING A SPECIAL GENERAL MEETING

### Bye-laws of the Company

Bye-law 62 of the Company's Bye-laws sets out the position where a requisition is made by shareholders of the Company. Bye-law 62 provides that a special general meeting (the "SGM") shall be convened on requisition, as provided by the Companies Act 1981 of Bermuda (the "Bermuda Companies Act"), and, in default, may be convened by the requisitionists.

### Bermuda Companies Act

1. Pursuant to Section 74 of the Bermuda Companies Act, the Directors, notwithstanding anything in its Bye-laws shall, on the requisition of members of the Company holding at the date of the deposit of the requisition not less than one-tenth of such of the paid-up capital of the Company as at the date of the deposit carries the right of voting at general meetings of the Company, forthwith proceed duly to convene a SGM of the Company.

2. The requisition must state the purposes of the meeting, and must be signed by the requisitionists and deposited at the registered office of the Company at Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda, and may consist of several documents in like form each signed by one or more requisitionists.

3. If the Directors do not within twenty-one days from the date of the deposit of the requisition proceed duly to convene a meeting, the requisitionists, or any of them representing more than one half of the total voting rights of all of them, may themselves convene a meeting, but any meeting so convened shall not be held after the expiration of three months from the said date.

4. A meeting convened under this section by the requisitionists shall be convened in the same manner, as nearly as possible, as that in which meetings are to be convened by Directors.

## PUTTING FORWARD PROPOSALS AT SHAREHOLDERS' MEETING BY A SHAREHOLDER

1. Sections 79 and 80 of the Bermuda Companies Act allow certain shareholder(s) to make requisition to the Company to move a resolution at an AGM or circulate a statement at any general meeting of the Company.

2. Under section 79 of the Bermuda Companies Act, it shall be the duty of the Company on the requisition in writing of such number of members, at the expense of the requisitionists unless the Company otherwise resolves:

    (a) to give to members of the Company entitled to receive notice of the next AGM notice of any resolution which may properly be moved and is intended to be moved at that meeting;

    (b) to circulate to members entitled to have notice of any general meeting sent to them any statement of not more than one thousand words with respect to the matter referred to in any proposed resolution or the business to be dealt with at that meeting.

# CORPORATE GOVERNANCE REPORT

3. The number of members necessary for a requisition under paragraph 2 above shall be:

   (a) either any number of members representing not less than one-twentieth of the total voting rights of all the members having at the date of the requisition a right to vote at the meeting to which the requisition relates; or

   (b) not less than one hundred members.

4. Notice of any such intended resolution shall be given, and any such statement shall be circulated, to members of the Company entitled to have notice of the meeting sent to them by serving a copy of the resolution or statement on each such member in any manner permitted for service of notice of the meeting, and notice of any such resolution shall be given to any other member of the Company by giving notice of the general effect of the resolution in any manner permitted for giving him notice of meetings of the Company, provided that the copy shall be served, or notice of the effect of the resolution shall be given, as the case may be, in the same manner and, so far as practicable, at the same time as notice of the meeting and, where it is not practicable for it to be served or given at that time, it shall be served or given as soon as practicable thereafter.

5. Section 80 of the Bermuda Companies Act sets out the conditions to be met before the Company is bound to give notice of any resolution or to circulate any statement. Pursuant to section 80 of the Bermuda Companies Act, the Company shall not be bound to give notice of any resolution or to circulate any statement as mentioned in paragraph 2 above unless:

   (a) a copy of the requisition signed by the requisitionists, or two or more copies which between them contain the signatures of all the requisitionists, is deposited at the registered office of the Company at Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda:

      i) in the case of a requisition requiring notice of a resolution, not less than six weeks before the meeting; and

      ii) in the case of any other requisition, not less than one week before the meeting; and

   (b) there is deposited or tendered with the requisition a sum reasonably sufficient to meet the Company's expense in giving effect to the procedures in paragraph 2 above.

Provided that if, after a copy of the requisition requiring notice of a resolution has been deposited at the registered office of the Company at Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda, an AGM is called for a date six weeks or less after the copy has been deposited, the copy though not deposited within the abovementioned time shall be deemed to have been properly deposited for the purposes thereof.

## SUBMISSION OF ENQUIRIES TO THE BOARD

The Board established a shareholders' communication policy and has posted it on the website of the Company. The Board reviews it on a regular basis to ensure its effectiveness.

Enquiries, comments and suggestions to the Board or the Company are welcome and can be addressed to the Investor Relations Department by mail to Room 1801, 18/F, Capital Centre, No. 151 Gloucester Road, Wanchai, Hong Kong or by email at investor.relations@g-resources.com.

Questions about the Company's activities may be directed to information@g-resources.com.

# INDEPENDENT AUDITOR'S REPORT

Deloitte. 德勤

## TO THE SHAREHOLDERS OF G-RESOURCES GROUP LIMITED

國際資源集團有限公司

*(incorporated in Bermuda with limited liability)*

### Opinion

We have audited the consolidated financial statements of G-Resources Group Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 38 to 107, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss, 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 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

### Basis for Opinion

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

### Key Audit Matters

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

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| **Fair value of available-for-sale investments**<br>We identified the measurement of fair value of certain available-for-sale investments as a key audit matter due to the significance of the balance to the consolidated financial statements as a whole.<br><br>As at 31 December 2017, the carrying value of the available-for-sale investments was USD379,728,000 of which USD251,373,000 is classified as level 2 of the fair value hierarchy, as set out in note 33 to the consolidated financial statements and accordingly, judgment is required in determining and appropriate fair value of these investments.<br><br>In accounting for the fair value measurement of these available-for-sale investments, management determined the fair value based on quoted price from financial institutions supported by observable inputs. | Our procedures in relation to fair value of certain available-for-sale investments included:<br><br>• Obtaining an understanding of the entity's process regarding the determination of fair value of the available-for-sale investments;<br><br>• Comparing the quotes from financial institutions in respect of the available-for-sale investments with available recent transaction price; and<br><br>• Agreeing the investment held to the confirmations received independently from third parties. |
| **Fair value of a held for trading investment**<br>We identified the measurement of fair value of the shares which was suspended from trading in held for trading investments as a key audit matter due to the significant judgement in selecting an appropriate valuation technique and assumptions and estimates for the fair value measurement of a held for trading investment.<br><br>As at 31 December 2017, the held for trading investments were listed shares in The Stock Exchange of Hong Kong Limited and were measured at fair value. As at 31 December 2017, an equity investment amounted to approximately USD12,610,000 was suspended from trading. The fair value change between the date of suspension to 31 December 2017 is USD1,405,000, which was recognised in profit or loss during the year ended 31 December 2017.<br><br>The fair value of investment in the shares which was suspended from trading which do not resume trading in a short period of time subsequent to period end, for which there is an absence of quoted prices, the fair value was determined by the management based on valuation conducted by an independent valuer. As disclosed in note 22, the fair value was estimated by Finnerty model to derive a discount for lack of marketability. The model incorporates unobservable data inputs, which include stock price, volatility, dividend yield, the expected suspension period and the liquidity discount rate. | Our procedures in relation to fair value of a held for trading investment included:<br><br>• Obtaining an understanding of the entity's valuation process in selecting valuation techniques, adopting unobservable inputs as well as appointing independent valuer regarding the determination of fair value of the investment in the shares which was suspended from trading;<br><br>• Assessing the qualification and experience of the independent valuer performing the valuation of the investment in the shares which was suspended from trading;<br><br>• Involving our valuation expert to evaluate the appropriateness of the valuation model and assumptions and estimates used to calculate the fair value of the investment in the shares which was suspended from trading; and<br><br>• Evaluating the assumptions made by the management and reviewing the financial statement disclosures made in the consolidated financial statements. |

# INDEPENDENT AUDITOR'S REPORT

| **Key audit matter** (Continued) | **How our audit addressed the key audit matter** (Continued) |
|---|---|
| **Impairment assessment of loans receivable**<br>We identified the impairment assessment of loans receivable as a key audit matter as it requires the application of judgement and use of subjective assumptions by management.<br><br>The carrying amount of the loans receivable in respect of the money lending business as at 31 December 2017 amounted to USD15,266,000. The management did not recognise any allowances for loans receivable as at 31 December 2017. As explained in note 4 to the consolidated financial statements, in determining the impairment provision of loans receivable, the recoverability of the loans receivable is assessed by management taking into account the credit quality, repayment history, value of collateral and likelihood of collection. | Our procedures in relation to impairment assessment of the loans receivable included:<br><br>• Understanding the entity's process of assessing the borrowers' creditability and financial capability prior to granting the loans;<br><br>• Discussing with the management and evaluating their process for assessing the recoverability of loans receivable; and<br><br>• Evaluating the recoverability of the loans receivable with a particular focus on loans overdue but not impaired by examining the underlying documentation, which included evidence of the borrowers' financial condition and repayments after the reporting date. |

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

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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

# INDEPENDENT AUDITOR'S REPORT

**Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional 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 Wong Lam Ching.

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*
Hong Kong
29 March 2018

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2017

| | NOTES | 2017 USD'000 | 2016 USD'000 |
|---|---|---|---|
| **Continuing operations** | | | |
| Revenue | 6 | **30,123** | 29,985 |
| Other income | | **10,389** | 4,175 |
| Administrative expenses | | **(17,620)** | (13,867) |
| Gain on disposal of available-for-sale investments | | **3,546** | 31 |
| Fair value changes of held for trading investments | | **6,860** | (9,481) |
| Fair value loss recognised upon remeasurement of derivative component in convertible bond investment upon redemption | | **(929)** | – |
| Increase in fair value of investment properties | | **6,943** | 773 |
| Provision of impairment on property, plant and equipment | 14 | **(10,587)** | – |
| Other gain/(loss) | | **3,972** | (1,381) |
| Finance cost | 7 | **(128)** | – |
| Share of results of associates | 18 | **(33)** | – |
| Profit before taxation | | **32,536** | 10,235 |
| Taxation | 8 | **(374)** | 3 |
| Profit for the year from continuing operations | 9 | **32,162** | 10,238 |
| **Discontinued operation** | | | |
| Profit for the year from discontinued operation | 10 | **–** | 118,566 |
| Profit for the year | | **32,162** | 128,804 |
| Profit for the year attributable to owners of the Company | | | |
| Continuing operations | | **31,249** | 10,285 |
| Discontinued operation | | **–** | 117,653 |
| Profit for the year attributable to owners of the Company | | **31,249** | 127,938 |
| Profit/(Loss) for the year attributable to non-controlling interests | | | |
| Continuing operations | | **913** | (47) |
| Discontinued operation | | **–** | 913 |
| Profit for the year attributable to non-controlling interests | | **913** | 866 |
| | | **32,162** | 128,804 |
| Earnings per share | | | |
| For continuing operations and discontinued operation | | | |
| – Basic and diluted (US cent) | 13 | **0.12** | 0.48 |
| For continuing operations | | | |
| – Basic and diluted (US cent) | 13 | **0.12** | 0.04 |

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

| | 2017<br>USD'000 | 2016<br>USD'000 |
|---|---|---|
| Profit for the year | **32,162** | 128,804 |
| Other comprehensive (expenses)/income: | | |
| Item that will not be reclassified subsequently to profit or loss: | | |
| Exchange differences arising on translation | **(7,852)** | (304) |
| | **(7,852)** | (304) |
| Items that may be reclassified subsequently to profit or loss: | | |
| Exchange differences arising on translation | **2,349** | (52) |
| Release of exchange reserve upon disposal of subsidiaries | **–** | 304 |
| Fair value gain on available-for-sale investments | **4,914** | 6,416 |
| Reclassification upon disposal of available-for-sale investments | **(3,546)** | (26) |
| | **3,717** | 6,642 |
| Other comprehensive (expenses)/income for the year | **(4,135)** | 6,338 |
| Total comprehensive income for the year | **28,027** | 135,142 |
| Total comprehensive income for the year attributable to: | | |
| Owners of the Company | **27,156** | 134,278 |
| Non-controlling interests | **871** | 864 |
| | **28,027** | 135,142 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

| | NOTES | 2017 USD'000 | 2016 USD'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 14 | **48,164** | 24,664 |
| Investment properties | 15 | **83,384** | 95,934 |
| Available-for-sale investments | 16 | **379,728** | 303,382 |
| Other receivable and deposits | 17 | **1,906** | 13,357 |
| Interests in associates | 18 | **898** | – |
| Intangible assets | 19 | **515** | 455 |
| Goodwill | 20 | **1,469** | 1,480 |
| | | **516,064** | 439,272 |
| **CURRENT ASSETS** | | | |
| Accounts and other receivables | 17 | **14,037** | 21,396 |
| Loans receivable | 21 | **15,266** | 15,868 |
| Held for trading investments | 22 | **78,719** | 72,391 |
| Tax recoverable | | **79** | – |
| Bank trust accounts balances | 24 | **1,284** | 459 |
| Bank balances and cash | 25 | **780,142** | 825,485 |
| | | **889,527** | 935,599 |
| **CURRENT LIABILITIES** | | | |
| Accounts and other payables | 26 | **15,395** | 13,071 |
| Tax payable | | **474** | 105 |
| | | **15,869** | 13,176 |
| **NET CURRENT ASSETS** | | **873,658** | 922,423 |
| **TOTAL ASSETS LESS CURRENT LIABILITIES** | | **1,389,722** | 1,361,695 |
| **NON-CURRENT LIABILITY** | | | |
| Deferred tax liabilities | 27 | **64** | 64 |
| | | **64** | 64 |
| | | **1,389,658** | 1,361,631 |
| **CAPITAL AND RESERVES** | | | |
| Share capital | 28 | **34,871** | 34,871 |
| Reserves | | **1,348,747** | 1,321,591 |
| Equity attributable to owners of the Company | | **1,383,618** | 1,356,462 |
| Non-controlling interests | | **6,040** | 5,169 |
| **TOTAL EQUITY** | | **1,389,658** | 1,361,631 |

The consolidated financial statements on pages 38 to 107 were approved and authorised for issue by the Board of Directors on 29 March 2018 and are signed on its behalf by:

| | |
|---|---|
| **Wah Wang Kei, Jackie** | **Leung Oi Kin** |
| *Director* | *Director* |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

| | Attributable to owners of the Company | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital USD'000 | Share premium USD'000 | Capital redemption reserve USD'000 | Contributed surplus (Note) USD'000 | Share options reserve USD'000 | Exchange reserve USD'000 | Investment revaluation reserve USD'000 | Retained earnings USD'000 | Total USD'000 | Non-controlling interests USD'000 | Total USD'000 |
| At 1 January 2016 | 34,246 | 1,014,800 | 212 | 11,658 | 3,919 | 1,383 | 6,269 | 155,753 | 1,228,240 | 23,101 | 1,251,341 |
| Profit for the year | – | – | – | – | – | – | – | 127,938 | 127,938 | 866 | 128,804 |
| Fair value gain on available-for-sale investments | – | – | – | – | – | – | 6,416 | – | 6,416 | – | 6,416 |
| Exchange difference arising on translation | – | – | – | – | – | (354) | – | – | (354) | (2) | (356) |
| Release of exchange reserve upon disposal of subsidiaries (Note 31) | – | – | – | – | – | 304 | – | – | 304 | – | 304 |
| Reclassified to profit or loss upon disposal of available-for-sale investments | – | – | – | – | – | – | (26) | – | (26) | – | (26) |
| Total comprehensive (expenses)/ income for the year | – | – | – | – | – | (50) | 6,390 | 127,938 | 134,278 | 864 | 135,142 |
| Disposal of subsidiaries (Note 31) | – | – | – | – | – | – | – | – | – | (24,014) | (24,014) |
| Acquisition of subsidiaries (Note 30) | – | – | – | – | – | – | – | – | – | 5,218 | 5,218 |
| Vested share options lapsed | – | – | – | – | (3,633) | – | – | 3,633 | – | – | – |
| Dividends recognised as distribution (Note 28) | 625 | 8,383 | – | – | – | – | – | (15,064) | (6,056) | – | (6,056) |
| At 31 December 2016 and 1 January 2017 | 34,871 | 1,023,183 | 212 | 11,658 | 286 | 1,333 | 12,659 | 272,260 | 1,356,462 | 5,169 | 1,361,631 |
| Profit for the year | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **31,249** | **31,249** | **913** | **32,162** |
| Fair value gain on available-for-sale investments | **–** | **–** | **–** | **–** | **–** | **–** | **4,914** | **–** | **4,914** | **–** | **4,914** |
| Exchange difference arising on translation | **–** | **–** | **–** | **–** | **–** | **(5,461)** | **–** | **–** | **(5,461)** | **(42)** | **(5,503)** |
| Reclassified to profit or loss upon disposal of available-for-sale investments | **–** | **–** | **–** | **–** | **–** | **–** | **(3,546)** | **–** | **(3,546)** | **–** | **(3,546)** |
| Total comprehensive (expenses)/ income for the year | **–** | **–** | **–** | **–** | **–** | **(5,461)** | **1,368** | **31,249** | **27,156** | **871** | **28,027** |
| Vested share options lapsed | **–** | **–** | **–** | **–** | **(286)** | **–** | **–** | **286** | **–** | **–** | **–** |
| At 31 December 2017 | **34,871** | **1,023,183** | **212** | **11,658** | **–** | **(4,128)** | **14,027** | **303,795** | **1,383,618** | **6,040** | **1,389,658** |

Note: The contributed surplus includes (i) the difference between the consolidated shareholders' funds of the subsidiaries at the date at which they were acquired by the Company, and the nominal amount of the Company's shares issued for the acquisition at the time of the group reorganisation prior to the listing of the Company's shares in 1994; (ii) the surplus arising from the group reorganisation in 1998; and (iii) the surplus arising from capital reorganisation in June 2009.

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

| | NOTES | 2017 USD'000 | 2016 USD'000 |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| Profit before taxation | | **32,536** | 138,955 |
| Adjustments for: | | | |
| Interest income | | **(23,444)** | (12,778) |
| Amortisation and depreciation | | **3,341** | 26,325 |
| Provision of impairment on property, plant and equipment | | **10,587** | – |
| Fair value changes of held for trading investments | | **(6,860)** | 9,481 |
| Fair value loss recognised upon remeasurement of derivative component in convertible bond investment upon redemption | | **929** | – |
| Gain on disposal of available-for-sale investments | | **(3,546)** | (31) |
| Finance cost | | **128** | 390 |
| Increase in fair value of investment properties | | **(6,943)** | (773) |
| Share of results of associates | | **33** | – |
| Fair value loss recognised upon conversion of convertible bond | | **–** | 205 |
| Reversal of provision for impairment of inventories | | **–** | (4,567) |
| Loss on disposal of property, plant and equipment | | **–** | 563 |
| Loss arising from written off of property, plant and equipment | | **–** | 3 |
| Gain on disposal of mining business | 31 | **–** | (110,058) |
| Transaction cost for the disposal of mining business | 10 | **–** | 11,520 |
| Operating cash flows before movements in working capital | | **6,761** | 59,235 |
| Increase in inventories | | **–** | (564) |
| Increase in other receivable and deposits | | **(254)** | (3,125) |
| Decrease/(increase) in accounts and other receivables | | **7,848** | (13,477) |
| Loans advanced to money lending customers | | **(93,448)** | (366,196) |
| Repayments from money lending customers | | **93,929** | 437,594 |
| Decrease/(increase) in held for trading investments | | **117** | (51,234) |
| Increase in bank trust accounts balances | | **(831)** | (39) |
| Increase in accounts and other payables | | **2,401** | 8,211 |
| **Cash generated from operations** | | **16,523** | 70,405 |
| Income taxes paid | | **(82)** | (5,304) |
| **Net cash from Operating Activities** | | **16,441** | 65,101 |

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

| | NOTES | 2017 USD'000 | 2016 USD'000 |
|---|---|---|---|
| **INVESTING ACTIVITIES** | | | |
| Purchase of property, plant and equipment | | **(18,871)** | (8,878) |
| Acquisition of interests in associates | | **(934)** | – |
| Purchase of available-for-sale investments | | **(152,123)** | (130,960) |
| Proceeds from disposal of available-for-sale investments | | **65,894** | 2,347 |
| Proceeds from return of capital of available-for-sale investments | | **14,821** | 6,660 |
| Purchase of convertible bond investment | | **(9,230)** | – |
| Proceeds from redemption of convertible bond investment | | **8,961** | – |
| Addition of intangible assets | | **(64)** | – |
| Interest received | | **23,523** | 11,914 |
| Receipt of deferred cash consideration in relation to disposal of mining business | | **11,635** | – |
| Additions of exploration and evaluation assets | | **–** | (2,150) |
| Proceeds from disposal of property, plant and equipment | | **–** | 644 |
| Acquisition of subsidiaries | 30 | **–** | 5,518 |
| Net proceed from disposal of mining business | 31 | **–** | 784,292 |
| Transaction cost for the disposal of mining business paid | | **–** | (11,497) |
| **Net cash (used in)/from Investing Activities** | | **(56,388)** | 657,890 |
| **FINANCING ACTIVITIES** | | | |
| Dividend paid to shareholders | | **–** | (6,056) |
| New other borrowings raised | | **23,099** | – |
| Repayment of other borrowings | | **(23,099)** | – |
| Interest expenses paid | | **(128)** | – |
| **Net cash used in Financing Activities** | | **(128)** | (6,056) |
| **Net (decrease)/increase in cash and cash equivalents** | | **(40,075)** | 716,935 |
| **Cash and cash equivalents at beginning of the year** | | **825,485** | 106,963 |
| **Effect of foreign exchange rate changes** | | **(5,268)** | 1,587 |
| **Cash and cash equivalents at end of the year, represented by Bank Balances and Cash** | | **780,142** | 825,485 |

## 1. GENERAL

G-Resources Group Limited (the "Company") is an exempted company with limited liability incorporated in Bermuda and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange"). The address of the registered office and principal place of business of the Company is disclosed in the Corporate Information of the annual report.

The Company acts as an investment holding company. The principal activities of its principal subsidiaries are set out in note 40.

The consolidated financial statements are presented in United States Dollars ("USD"), which is different from the Company's functional currency of Hong Kong Dollars ("HKD"). The management adopted USD as presentation currency as the management controls and monitors the performance and financial position of the Group based on USD. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

### Amendments to Hong Kong Financial Reporting Standards that are mandatorily effective for the current year

In the current year, the Group has applied the following new and revised Hong Kong Accounting Standards ("HKAS"s), Hong Kong Financial Reporting Standards ("HKFRS"s), amendments and interpretations (hereinafter collectively referred to as "new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time.

| | |
|---|---|
| HKAS 7 (Amendments) | Disclosure Initiative |
| HKAS 12 (Amendments) | Recognition of Deferred Tax Assets for Unrealised Losses |
| HKFRS 12 (Amendments) | As part of the Annual Improvements to HKFRSs 2014–2016 Cycle |

Except as described below, the application of the new and revised HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior year and/or disclosures set out in the consolidated financial statements.

***Amendments to HKAS 7 Disclosure initiative***

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities including both changes arising from cash flows and non-cash changes. In addition, the amendments also require disclosures of changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following changes in liabilities arising from financing activities to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

A reconciliation between the opening and closing balances of liabilities arising from financing activities including these items is provided in note 38. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in note 38, the application of these amendments has had no impact on the Group's consolidated financial statements.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

### New and revised Hong Kong Financial Reporting Standards in issue but not yet effective

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

| | |
|---|---|
| HKFRS 9 | Financial Instruments[1] |
| HKFRS 15 | Revenue from Contracts with Customers and the Related Amendments[1] |
| HKFRS 16 | Leases[2] |
| HKFRS 17 | Insurance Contracts[4] |
| HK(IFRIC)-Int 22 | Foreign Currency Transactions and Advance Consideration[1] |
| HK(IFRIC)-Int 23 | Uncertainty over Income Tax Treatments[2] |
| HKFRS 2 (Amendments) | Classification and Measurement of Share-based Payment Transactions[1] |
| HKFRS 4 (Amendments) | Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1] |
| HKFRS 9 (Amendments) | Prepayment Features with Negative Compensation[2] |
| HKFRS 10 and HKAS 28 (Amendments) | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3] |
| HKAS 28 (Amendments) | As part of the Annual Improvements to HKFRSs 2014-2016 Cycle[1] |
| HKAS 28 (Amendments) | Long-term Interests in Associates and Join Ventures[2] |
| HKFRSs (Amendments) | Annual Improvements to HKFRSs 2015-2017 Cycle[2] |
| HKAS 40 (Amendments) | Transfers of Investment Property[1] |

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 2021

Except for the new and revised HKFRSs mentioned below, the directors of the Company anticipate that the application of all other new and revised HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

***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 which are relevant to the Group are:

- 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 financial assets are measured at their fair value at subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in 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 REVISED HONG KONG FINANCIAL REPORTING STANDARDS (continued)

### New and revised Hong Kong Financial Reporting Standards in issue but not yet effective (continued)

***HKFRS 9 Financial Instruments*** (continued)

Key requirements of HKFRS 9 which are relevant to the Group are: (continued)

- 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.

Based on the Group's financial instruments and risk management policies as at 31 December 2017, the directors of the Company anticipate the following potential impact on initial application of HKFRS 9:

Classification and measurement:

- Listed debt instruments classified as available-for-sale investments carried at fair value as disclosed in note 16: these are held within a business model whose objective is achieved both by collecting contractual cash flows and selling the listed debt instruments in the open market. Majority of these instruments have the contractual terms give rise to cash flows on specified dates that are solely payments of principal and interest on the principal outstanding. Accordingly, those listed debt instruments will continue to be subsequently measured at FVTOCI upon the application of HKFRS 9, and the fair value gains or losses accumulated in the investment revaluation reserve will continue to be subsequently reclassified to profit or loss when the listed debentures are derecognised or reclassified. For the remaining listed debt instruments which fail the contractual cash flow characteristics test will be measured at fair value with subsequent fair value gains or losses to be recognised in profit or loss instead of other comprehensive income and the investment revaluation reserve will be transferred to retained earnings as at 1 January 2018;

- Unlisted equity securities classified under available-for-sale investments as disclosed in note 16, the securities qualified for designation as measured at FVTOCI under HKFRS 9, however, for majority of the securities, the Group has not elected the option for designating these securities to be measured at FVTOCI and will measure these securities at fair value with subsequent fair value gains or losses to be recognised in profit or loss. Upon initial application of HKFRS 9, net fair value gains relating to these securities would be adjusted to retained earnings as at 1 January 2018. For the remaining portion of unlisted equity securities classified as available-for-sale investments as disclosed in note 16, the Group elected the option for designating these securities to be measured at FVTOCI and the fair value gains or losses accumulated in the investments revaluation reserve as at 1 January 2018 will no longer be subsequently reclassified to profit or loss under HKFRS 9, which is different from the current treatment. This will affect the amounts recognised in the Group's profit or loss and other comprehensive income but will not affect total comprehensive income;

- For other unlisted securities other than equity securities which are not qualified for the designation at FVTOCI will be measured at fair value with subsequent fair value gains or losses to be recognised in profit or loss and the investment revaluation reserve will be transferred to retained earnings as at 1 January 2018;

- All other financial assets and financial liabilities will continue to be measured on the same bases as are currently measured under HKAS 39.

Impairment:

In general, the directors of the Company anticipate that the application of the expected credit loss model of HKFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised costs and other items that subject to the impairment provisions upon application of HKFRS 9 by the Group.

The Group expects to apply the simplified approach to recognise lifetime expected credit losses for its accounts receivables as required or permitted under HKFRS 9. Based on the assessment by the directors of the Company, if the expected credit loss model were to be applied by the Group, the accumulated amount of impairment loss to be recognised by Group as at 1 January 2018 would be not materially increased as compared to the accumulated amount recognised under HKAS 39 mainly attributable to expected credit losses provision on accounts and other receivables, loans receivable and available-for-sale debt instruments. Such further impairment recognised under expected credit loss model would reduce the opening retained earnings and increase the deferred tax assets at 1 January 2018.

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

### New and revised Hong Kong Financial Reporting Standards in issue but not yet effective (continued)

***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.

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 result in more disclosure, however, the directors of the Company do not anticipate that the application of HKFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

***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 classified as investment properties while other operating lease payments are presented as operating cash flows. Under application of 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 by the Group.

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

### New and revised Hong Kong Financial Reporting Standards in issue but not yet effective (continued)

***HKFRS 16 Leases*** (continued)

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 2017, the Group has non-cancellable operating lease commitments of USD1,080,000 as disclosed in note 34. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, 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.

In addition, the Group currently considers refundable rental deposits paid of USD182,000 and refundable rental deposits received of USD687,000 as rights and obligations under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost and such adjustments are considered as additional lease payments. Adjustments to refundable rental deposits paid would be included in the carrying amount of right-of-use assets. Adjustments to refundable rental deposits received would be considered as advance lease payments.

Furthermore, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above.

## 3. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared on the historical cost basis except for certain properties and financial instruments that are measured at fair values at the end of each reporting period. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

For financial instruments and investment properties which are measured at fair value and a valuation technique that uses unobservable inputs is to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that the results of the valuation technique equals the transaction price.

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

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

The principal accounting policies are set out below.

### 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 subsidiaries acquired or disposed of during the year are included in the consolidated statement of profit or loss 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.

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

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

### Non-controlling interests

Non-controlling interests that are present ownership interests and entitle their holdings to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interest's 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.

***Allocation of total comprehensive income to non-controlling interests***

Total comprehensive income and expense of a subsidiary 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Revenue recognition

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

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

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

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

Revenue from financial services is recognised on the following basis:

- Commission and brokerage income from dealing in securities are recognised on a trade date basis;
- Underwriting commission income, sub-underwriting commission income, placing commission and sub-placing commission are recognised as income in accordance with the terms of the underwriting agreement or deal mandate when the relevant significant acts have been completed; and
- Advisory, clearing and handling fee income are recognised when the relevant transactions have been arranged or the relevant services have been rendered.

Service income is recognised when services are provided.

Interest income from a financial asset and from margin financing are 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.

Dividend and distribution income from investments including financial assets at fair value through profit or loss and available-for-sale financial assets are recognised when the shareholders' rights to receive payment have been established.

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Business combinations

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

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

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

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 as mentioned 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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Goodwill

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

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purpose 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 of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets of on a pro-rata basis based on the carrying amount of each asset in the unit (or group of cash-generating units). Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal (or any of the cash-generating unit within group of cash-generating units in which the Group monitors goodwill).

The Group's policy for goodwill arising on the acquisition of an associate is described below.

### Investments in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. Changes in net assets of the associate other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Investments in associates (continued)

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

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

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

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

### Intangible assets

***Intangible assets acquired separately***

Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Intangible assets (continued)

***Intangible assets acquired in a business combination***

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

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less any subsequent accumulated impairment losses. The accounting policy in respect of impairment losses on intangible assets is described below.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

### 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, are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment less their estimated residual values over their estimated useful lives. 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 asset is determined as the difference between the sales proceeds and the carrying amount of the item and is recognised in the profit or loss.

### Leasing

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

***The Group as lessor***

Rental income from operating lease is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

***The Group as lessee***

Operating lease payments 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.

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Leasehold land and building

When the Group makes payments for a property interest which includes both leasehold land and building elements, the Group assesses the classification of each element 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 property is accounted as an operating lease. Specifically, the entire consideration (including any lump-sum upfront payments) are allocated between the leasehold land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element at initial recognition.

To the extent the allocation of the relevant 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 except for those that are classified and accounted for as investment properties under the fair value model. When the payments cannot be allocated reliably between the leasehold land and building elements, the entire property is generally classified as if the leasehold land is under finance lease.

### Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at fair value. All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are classified and accounted for as investment properties and are measured using the fair value model. Gains or losses arising from changes in the fair value of investment property are included in profit or loss for the year in which they arise.

When an item of investment properties is transferred to owner-occupied property, the deemed cost of a property is its fair value at the date of change in use.

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

### 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 recorded at the rates of exchanges prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement and retranslation of monetary items are recognised in the 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 operations are translated into the presentation currency of the Group (i.e. USD) at the rate of exchange prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (the exchange reserve), attributed to non-controlling interests as appropriate.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income. Upon disposal of a foreign operation, the cumulative exchange differences which are accumulated in the equity in respect of that operation will be subsequently reclassified to profit or loss.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Borrowing costs

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

### Retirement benefits scheme

The retirement benefits scheme contributions relating to the Mandatory Provident Fund Scheme for all employees in Hong Kong and state-managed retirement benefit scheme for all employees in Indonesia charged to profit and loss represent contributions payable to the schemes by the Group at rates specified in the rules of the schemes.

### Taxation

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

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

Deferred tax is recognised on temporary differences between the carrying amount of assets and liabilities in the consolidated financial statements and the corresponding tax base 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 difference to the extent that it is probable that taxable profits will be available against which 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 and associates, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

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

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

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Taxation (continued)

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

### Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets 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.

***Offsetting of financial instruments***

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

***Financial assets***

The Group's financial assets are classified into one of the three categories, including financial assets at fair value through profit or loss ("FVTPL"), loans and receivables and available-for-sale financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales 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 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.

*Financial assets at fair value through profit or loss*

Financial assets at FVTPL represent financial assets held for trading.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- on initial recognition it is a part of an identified portfolio of 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.

Financial assets at FVTPL are stated at fair value, with changes in fair value arising from re-measurement recognised directly 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 fair value changes of held for trading investments. Fair value is determined in the manner described in note 33(c).

## 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 accounts and other receivables and deposits, loans receivable, bank trust accounts balances and bank balances and cash) are measured at amortised cost using the effective interest method, less any identified impairment losses.

*Available-for-sale financial assets*

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

Available-for-sale financial assets are measured at fair value at the end of each reporting period except for unquoted equity investments whose fair value cannot be reliably measured. Changes in the carrying amount of available-for-sale monetary financial assets relating to interest income calculated using the effective interest method, and changes in foreign exchange rates, if applicable are recognised in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognised in other comprehensive income and accumulated in the 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.

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period.

*Convertible bond*

Investment in convertible bond is accounted for by measuring the embedded derivative at FVTPL while the host contract is classified as loans and receivables. Both components are initially measure at fair value. The embedded derivative component is subsequently remeasured at fair value at the end of the reporting period with resulting gain or loss recognised in profit or loss immediately.

*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 an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment 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 contracts, such as default or delinquency in interest and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

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

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

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

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

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

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

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

***Financial liabilities and equity instruments***

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

*Effective interest method*

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

Interest expense is recognised on an effective interest basis.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments (continued)

***Financial liabilities and equity instruments*** (continued)

*Financial liabilities*

Financial liabilities (including accounts and other payables) are subsequently measured at amortised cost, using the effective interest method.

*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 Company are recorded at the proceeds received, net of direct issue costs.

***Derecognition***

Financial assets are derecognised only when the contractual rights to receive cash flows from the assets expire, or when it transfers the financial assets and substantially all the risks and rewards of ownership of the financial assets to another entity.

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

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

### Provisions

Provisions are recognised when the Group has a present obligation (legal or construction) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

### Impairment on tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible assets and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of impairment loss (if any). When it is not possible to estimate the recoverable amount of an asset individually, 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.

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Impairment on tangible and intangible assets other than goodwill (continued)

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 (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

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

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

### Share-based payment transactions

***Equity-settled share-based payment transactions***

*Share options granted to directors and employees of the Company*

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 of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting condition is expensed on a straight-line basis over the vesting period, based on the Group's estimate of share options 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 each reporting period, the Group revises its estimates of the number of options that are expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates during the vesting period, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share options reserve.

At the time when the share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited or lapsed 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 earnings.

*Share options granted to suppliers/consultants*

Equity-settled share-based payment transactions with parties other than employees are measured at the fair values of the goods or services received, except where that fair value cannot be estimated reliably, in which case the goods or services received are measured at the fair value of the share options granted, measured at the date the entity obtains the goods or the counterparty renders the service. The fair values of the goods or services received are recognised as expenses (unless the goods or services qualify for recognition as assets).

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

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

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

### Critical judgements in applying accounting policies

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

***Deferred taxation on investment properties***

For the purposes of measuring deferred tax liabilities or deferred tax assets arising from investment properties that are measured using the fair value model, the directors have reviewed the Group's investment property portfolios and concluded that the Group's investment properties are not held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time. Therefore, in measuring the Group's deferred taxation on investment properties, the directors have determined that the presumption that the carrying amounts of investment properties measured using the fair value model are recovered entirely through sale is not rebutted. As a result, the Group has not recognised any deferred taxes on changes in fair value of investment properties as the Group is not subject to any income taxes on the fair value changes of the investment properties on disposal.

### 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 financial year.

***Fair value measurements and valuation processes***

Some of the Group's assets are measured at fair value for financial reporting purposes.

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 and Level 2 inputs are not available, the Group engages third party qualified valuers to perform the valuation. The management works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model. The fluctuation in the fair value of the assets and liabilities is reported and analysed periodically.

The Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain types of financial instruments. The detailed information about the valuation techniques, inputs and key assumptions used in the determination of the fair value of various assets and liabilities are set out in note 33(c).

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

### Key sources of estimation uncertainty (continued)

***Impairment loss on loans receivable***

Management regularly reviews the recoverability of the loans receivable. Appropriate impairment for estimated irrecoverable amount is recognised in profit and 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 of the credit quality, repayment history, value of collateral and likelihood of collection. Specific allowance is only made for the loans receivable that are unlikely to be collected and is recognised on the difference between the carrying amount of loans receivable 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 2017, there is no impairment made and the carrying amount of loans receivable is USD15,266,000 (2016: USD15,868,000).

***Impairment loss on advances to customers on margin financing***

The Group reviews its advances to customers on margin financing to assess impairment on a periodic basis. In determining whether an impairment loss should be recognised in profit or loss, the Group makes judgments as to whether there is any observable data indicating that there is objective evidence of impairment that will result in a measurable decrease in the estimated future cash flows from a portfolio of advances. Moreover, the Group also reviews the value of the securities collateral received from the customers in determining the impairment. The Group reviews the methodology and assumptions used for estimating both the amount and timing of future cash flows regularly to reduce any differences between loss estimates and actual loss experience. Details of advances to customers on margin financing are set out in note 17.

***Estimated impairment on available-for-sale investments stated at cost less impairment loss***

Management reviews the recoverability of the Group's available-for-sale investments stated at cost less impairment loss with reference to current market environment whenever events or changes in circumstances indicate that the carrying amounts of the assets exceed their corresponding recoverable amounts. Appropriate impairment for estimated irrecoverable amounts are recognised in profit or loss when there is objective evidence that the asset is impaired.

In determining whether impairment on available-for-sale investments stated at cost less impairment loss is required, the Group takes into consideration the current market environment and the estimates of future cash flows which the Group expects to receive. Impairment is recognised based on the present value of estimated future cash flows. If the market environment/circumstances change significantly, resulting in a decrease in the recoverable amount of these available-for-sale investments stated at cost less impairment loss, additional impairment loss may be required. As at 31 December 2017, the carrying amount of available-for-sale investments stated at cost less impairment loss is USD128,355,000 (2016: USD43,025,000).

***Fair value of investment properties***

Investment properties are carried in the consolidated statement of financial position at 31 December 2017 at their fair value of USD83,384,000 (2016: USD95,934,000). The fair value was based on valuation of these properties conducted by independent firms of professional valuers using property valuation techniques which involve certain assumptions of market conditions. Favourable or unfavourable changes to these assumptions would result in changes in the fair value of the Group's investment properties and corresponding adjustments to the amount of gain or loss reported in the consolidated statement of profit or loss.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

## 5. SEGMENT INFORMATION

Information reported to the executive directors of the Company, being the chief operating decision makers, for the purpose of resource allocation and assessment of segment performance focuses on the nature of their operations and types of products and services provided. Each of the Group's business segments represents a strategic business unit that offers products and services which are subject to risks and returns that are different from those of the other business segments.

The Group has three (2016: four) operating business units which represent three (2016: four) operating segments, namely, principal investment business, financial services business and real property business (2016: principal investment business, financial services business, real property business and mining business). During the year ended 31 December 2016, the Group acquired subsidiaries with the financial services business which includes money lending business and the Group disposed of mining business and the operating segment relating to the mining business was discontinued, which are described in more details in the note 10.

### (a) Segment revenue and results

An analysis of the Group's revenue and results by operating and reportable segment is as follows:

**For the year ended 31 December 2017**

| | Continuing operations | | | |
|---|---|---|---|---|
| | Principal investment business USD'000 | Financial services business USD'000 | Real property business USD'000 | Total USD'000 |
| Interest income from financial products | 13,436 | – | – | 13,436 |
| Dividend and distribution income from financial products | 7,608 | – | – | 7,608 |
| Interest income from money lending business | – | 2,401 | – | 2,401 |
| Commission income from financial services | – | 3,720 | – | 3,720 |
| Interest income from margin financing | – | 1,373 | – | 1,373 |
| Rental income | – | – | 1,585 | 1,585 |
| Segment revenue | 21,044 | 7,494 | 1,585 | 30,123 |
| Segment results | 44,458 | 5,851 | 1,154 | 51,463 |
| Unallocated corporate expenses | | | | (15,283) |
| Increase in fair value of investments properties | | | | 6,943 |
| Provision of impairment on property, plant and equipment | | | | (10,587) |
| Profit before taxation | | | | 32,536 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

## 5. SEGMENT INFORMATION (continued)

### (a) Segment revenue and results (continued)

**For the year ended 31 December 2016**

| | Continuing operations | | | | Discontinued operation |
|---|---|---|---|---|---|
| | Principal investment business USD'000 | Financial services business USD'000 | Real property business USD'000 | Total USD'000 | Mining business USD'000 |
| Interest income from financial products | 9,026 | – | – | 9,026 | – |
| Dividend and distribution income from financial products | 5,588 | – | – | 5,588 | – |
| Interest income from money lending business | – | 11,499 | – | 11,499 | – |
| Commission income from financial services | – | 1,171 | – | 1,171 | – |
| Interest income from margin financing | – | 776 | – | 776 | – |
| Rental income | – | – | 1,925 | 1,925 | – |
| Sales of gold and silver | – | – | – | – | 78,270 |
| Segment revenue | 14,614 | 13,446 | 1,925 | 29,985 | 78,270 |
| Segment results | 6,672 | 10,784 | 1,941 | 19,397 | 30,182 |
| Unallocated corporate income | | | | 7 | – |
| Unallocated corporate expenses | | | | (9,942) | – |
| Increase in fair value of investments properties | | | | 773 | – |
| Gain on disposal of mining business | | | | – | 110,058 |
| Transaction cost for the disposal of mining business | | | | – | (11,520) |
| Profit before taxation | | | | 10,235 | 128,720 |

The accounting policies of the reporting segments are the same as the Group's accounting policies described in note 3. Segment results represent the profit earned or generated by each segment without allocation of central administration costs, corporate income, increase in fair value of investment properties, provision for impairment on property, plant and equipment, gain on disposal of mining business and transaction cost for the disposal of mining business. This is the measure reported to the executive directors of the Company for the purposes of resources allocation and assessment of segment performance.

## 5. SEGMENT INFORMATION (continued)

### (b) Segment assets and liabilities

An analysis of the Group's assets and liabilities by operating and reportable segment is as follows:

**At 31 December 2017**

| | Principal investment business USD'000 | Financial services business USD'000 | Real property business USD'000 | Total USD'000 |
|---|---|---|---|---|
| ASSETS | | | | |
| Segment assets | 1,228,356 | 40,855 | 85,677 | 1,354,888 |
| Assets relating to discontinued operation | | | | 1,691 |
| Unallocated corporate assets | | | | 49,012 |
| Total assets | | | | 1,405,591 |
| LIABILITIES | | | | |
| Segment liabilities | 109 | 1,986 | 909 | 3,004 |
| Liabilities relating to discontinued operation | | | | 9,839 |
| Unallocated corporate liabilities | | | | 3,090 |
| Total liabilities | | | | 15,933 |

**At 31 December 2016**

| | Principal investment business USD'000 | Financial services business USD'000 | Real property business USD'000 | Total USD'000 |
|---|---|---|---|---|
| ASSETS | | | | |
| Segment assets | 1,183,552 | 56,429 | 96,066 | 1,336,047 |
| Assets relating to discontinued operation | | | | 13,304 |
| Unallocated corporate assets | | | | 25,520 |
| Total assets | | | | 1,374,871 |
| LIABILITIES | | | | |
| Segment liabilities | 112 | 782 | 383 | 1,277 |
| Liabilities relating to discontinued operation | | | | 9,847 |
| Unallocated corporate liabilities | | | | 2,116 |
| Total liabilities | | | | 13,240 |

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

- all assets are allocated to operating segment other than certain property, plant and equipment and other receivables.
- all liabilities are allocated to operating segment other than certain other payables.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

## 5. SEGMENT INFORMATION (continued)

### (c) Other segment information

**Continuing operations**

**For the year ended 31 December 2017**

| | Principal investment business USD'000 | Financial services business USD'000 | Real property business USD'000 | Unallocated USD'000 | Total USD'000 |
|---|---|---|---|---|---|
| **Amounts included in the measure of segment profit or loss or segment assets:** | | | | | |
| Additions to non-current assets (Note) | – | 78 | – | 18,888 | 18,966 |
| Additions to available-for-sale investments | 152,123 | – | – | – | 152,123 |
| Acquisition of interests in associates | – | 934 | – | – | 934 |
| Depreciation | – | (11) | – | (3,330) | (3,341) |
| Finance cost | – | (128) | – | – | (128) |
| Share of results of associates | – | (33) | – | – | (33) |
| Fair value changes of held for trading investments | 6,860 | – | – | – | 6,860 |
| Gain on disposal of available-for-sale investments | 3,546 | – | – | – | 3,546 |
| Interest income (including interest on bank deposits) | 23,418 | 3,782 | 18 | – | 27,218 |

**For the year ended 31 December 2016**

| | Principal investment business USD'000 | Financial services business USD'000 | Real property business USD'000 | Unallocated USD'000 | Total USD'000 |
|---|---|---|---|---|---|
| **Amounts included in the measure of segment profit or loss or segment assets:** | | | | | |
| Additions to non-current assets (Note) | – | 3,209 | – | 61 | 3,270 |
| Additions to available-for-sale investments | 130,960 | – | – | – | 130,960 |
| Additions to held for trading investments | 58,878 | – | – | – | 58,878 |
| Depreciation | – | (67) | – | (1,652) | (1,719) |
| Fair value changes of held for trading investments | (9,481) | – | – | – | (9,481) |
| Gain on disposal of available-for-sale investments | 31 | – | – | – | 31 |
| Interest income (including interest on bank deposits) | 12,725 | 12,275 | 46 | – | 25,046 |

Note: Non-current assets excluded available-for-sale investments and other receivable and deposits.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS



## 5. SEGMENT INFORMATION (continued)

### (d) Geographical information

The following table sets out (i) information about the geographical location of the Group's revenue from continuing operations from external customers determined based on the location of financial products, the location of financial services business operated and location of properties in the case of rental income and (ii) information of the non-current assets by the geographical area in which the assets are located are detailed below:

| | Continuing operations Segment revenue | | Non-current assets excluding financial instruments | |
|---|---|---|---|---|
| | **2017 USD'000** | 2016 USD'000 | **2017 USD'000** | 2016 USD'000 |
| Singapore | **6,899** | 6,766 | **–** | – |
| Hong Kong | **14,638** | 21,080 | **134,430** | 122,533 |
| United States of America | **4,066** | 458 | **–** | – |
| Europe | **3,950** | 1,446 | **–** | – |
| Others | **570** | 235 | **–** | – |
| | **30,123** | 29,985 | **134,430** | 122,533 |

Note: Non-current assets excluded available-for-sale investments and other receivable and deposits.

### (e) Information about major customers

For the year ended 31 December 2017, one (2016: two) customer contributed over 10% of the total revenue from continuing operations with the amount of USD3,644,000 (2016: USD5,866,000 and USD5,691,000) from principal investment business (2016: financial services business and principal investment business respectively).

## 6. REVENUE

The following is an analysis of the Group's revenue from its major products and services:

| | **2017 USD'000** | 2016 USD'000 |
|---|---|---|
| **Continuing operations** | | |
| Interest income from financial products | **13,436** | 9,026 |
| Dividend and distribution income from financial products | **7,608** | 5,588 |
| Interest income from money lending business | **2,401** | 11,499 |
| Commission income from financial services | **3,720** | 1,171 |
| Interest income from margin financing | **1,373** | 776 |
| Rental income | **1,585** | 1,925 |
| | **30,123** | 29,985 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

## 7. FINANCE COST

| | 2017<br>USD'000 | 2016<br>USD'000 |
|---|---|---|
| **Continuing operations** | | |
| Interest expense on other borrowings | **128** | – |
| Finance cost for the year | **128** | – |

## 8. TAXATION

| | 2017<br>USD'000 | 2016<br>USD'000 |
|---|---|---|
| **Continuing operations** | | |
| Hong Kong Profits Tax | | |
| Current tax | **374** | – |
| Over-provision in prior year | **–** | (3) |
| Taxation for the year | **374** | (3) |

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

The taxation for the year can be reconciled to the profit before taxation per the consolidated statement of profit or loss as follows:

| | 2017<br>USD'000 | 2016<br>USD'000 |
|---|---|---|
| **Continuing operations** | | |
| Profit before taxation | **32,536** | 10,235 |
| Tax at Hong Kong Profits Tax rate of 16.5% (2016: 16.5%) | **5,368** | 1,689 |
| Tax effect of expenses not deductible for tax purpose | **3,620** | 1,556 |
| Tax effect of income not taxable for tax purpose | **(7,411)** | (2,768) |
| Tax effect of tax losses not recognised | **551** | 1,720 |
| Utilisation of tax losses previously not recognised | **(1,759)** | (2,197) |
| Tax effect of share of results of associates | **5** | – |
| Over-provision of tax in prior years | **–** | (3) |
| Taxation for the year | **374** | (3) |

## 9. PROFIT FOR THE YEAR

| | 2017<br>USD'000 | 2016<br>USD'000 |
|---|---|---|
| **Continuing operations** | | |
| Profit for the year has been arrived at after charging/(crediting): | | |
| Staff costs | | |
| – Directors' emoluments | **1,390** | 1,900 |
| – Other staff costs | **3,301** | 2,423 |
| – Contributions to retirement benefits schemes, excluding directors | **75** | 55 |
| Total staff costs | **4,766** | 4,378 |
| Auditors' remuneration | **234** | 256 |
| Depreciation of property, plant and equipment | **3,341** | 1,719 |
| Operating lease payments in respect of office premises and warehouse | **819** | 991 |
| Exchange (gain)/loss, net, included in other (gain)/loss | **(3,972)** | 1,381 |
| Loss on disposal of property, plant and equipment | **–** | 563 |
| Loss arising from written off of property, plant and equipment | **–** | 3 |
| Interest income | **(27,218)** | (25,046) |

## 10. DISCONTINUED OPERATION

On 3 November 2015, the Group entered into a sale and purchase agreement to dispose of the entire issued share capital of G-Resources Martabe Pty Ltd and Capital Squad Limited and their respective subsidiaries, which carried out all of the Group's mining business. The disposal was completed on 17 March 2016, on the date which control of Martabe Mine and other companies passed to the acquirer.

The consolidated profit for the period ended 17 March 2016 from the discontinued mining business is set out below.

| | For the period ended 17 March 2016<br>USD'000 |
|---|---|
| Profit of mining business for the period | 20,028 |
| Gain on disposal of mining business (Note 31) | 110,058 |
| Transaction cost for the disposal of mining business | (11,520) |
| | 118,566 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

## 10. DISCONTINUED OPERATION (continued)

The results of the mining business for the period ended 17 March 2016, which have been included in the consolidated statement of profit or loss, were as follows:

| | For the period ended 17 March 2016 USD'000 |
|---|---|
| Revenue | 78,270 |
| Cost of sales | (41,695) |
| Other income | 68 |
| Administrative expenses | (6,071) |
| Finance costs | (390) |
| Profit before taxation | 30,182 |
| Taxation | (10,154) |
| Profit for the period | 20,028 |

| | For the period ended 17 March 2016 USD'000 |
|---|---|
| Profit for the period from discontinued operation has been arrived at after charging/ (crediting): | |
| Staff costs | |
| – Directors' emoluments | 44 |
| – Other staff costs | |
| – Cost of sales | 3,290 |
| – Administrative expenses | 1,295 |
| – Contributions to retirement benefits schemes, excluding directors | 188 |
| Total staff costs | 4,817 |
| Amortisation and depreciation of property, plant and equipment, included in | |
| – Cost of sales | 23,282 |
| – Administrative expenses | 1,324 |
| Operating lease payments in respect of office premises and warehouse | 33 |
| Reversal of provision for impairment of inventories | (4,567) |
| Royalties expense | 607 |
| Other taxes | 539 |
| Exchange loss, net | 72 |
| Interest income | (7) |

During the period from 1 January 2016 to 17 March 2016, the mining business contributed approximately USD55 million to the Group's net operating cash flows, paid approximately USD10 million in respect of investing activities.

The carrying amounts of the assets and liabilities of mining business at the date of disposal are disclosed in note 31.

## 11. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

### For continuing and discontinued operations

### (a) Directors' Emoluments

The emoluments paid or payable to each of the directors for the year were as follows:

**For the year ended 31 December 2017**

| | Fees USD'000 | Salaries and other emoluments USD'000 | Discretionary bonus USD'000 | Contributions to retirement benefits scheme USD'000 | Allowances USD'000 | Total USD'000 |
|---|---|---|---|---|---|---|
| Executive directors: (Note b) | | | | | | |
| Chiu Tao (Note a) | – | – | – | – | – | – |
| Ma Xiao | – | 372 | 128 | 2 | – | 502 |
| Wah Wang Kei, Jackie | – | 370 | 180 | 2 | – | 552 |
| Hui Richard Rui (Note f) | – | 25 | – | – | – | 25 |
| Leung Oi Kin | – | 169 | 43 | 2 | – | 214 |
| Independent non-executive directors: (Note c) | | | | | | |
| Or Ching Fai (Note i) | 45 | – | – | – | – | 45 |
| Ma Yin Fan (Note g) | 2 | – | – | – | – | 2 |
| Leung Hoi Ying (Note g) | 2 | – | – | – | – | 2 |
| Lo Wa Kei, Roy (Note j) | 14 | – | – | – | – | 14 |
| Chen Gong (Note h) | 17 | – | – | – | – | 17 |
| Martin Que Meideng (Note h) | 17 | – | – | – | – | 17 |
| | 97 | 936 | 351 | 6 | – | 1,390 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

## 11. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (continued)

### For continuing and discontinued operations (continued)

### (a) Directors' Emoluments (continued)

**For the year ended 31 December 2016**

| | Fees USD'000 | Salaries and other emoluments USD'000 | Discretionary bonus USD'000 | Contributions to retirement benefits scheme USD'000 | Allowances USD'000 | Total USD'000 |
|---|---|---|---|---|---|---|
| **Executive directors: (Note b)** | | | | | | |
| Chiu Tao (Note a) | – | – | – | – | – | – |
| Owen L Hegarty (Note d) | – | 151 | – | – | – | 151 |
| Ma Xiao | – | 360 | 322 | 2 | 26 | 710 |
| Wah Wang Kei, Jackie | – | 357 | 180 | 3 | – | 540 |
| Hui Richard Rui | – | 258 | 129 | 2 | – | 389 |
| Leung Oi Kin (Note e) | – | 25 | – | 1 | – | 26 |
| **Independent non-executive directors: (Note c)** | | | | | | |
| Or Ching Fai | 90 | – | – | – | – | 90 |
| Ma Yin Fan | 19 | – | – | – | – | 19 |
| Leung Hoi Ying | 19 | – | – | – | – | 19 |
| | 128 | 1,151 | 631 | 8 | 26 | 1,944 |

Notes:

(a) Mr Chiu Tao is the acting Chief Executive and his emoluments disclosed above include those for services rendered by him as the Chief Executive.

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

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

(d) Mr Owen L Hegarty resigned on 24 March 2016.

(e) Mr Leung Oi Kin was appointed on 8 November 2016.

(f) Mr Hui Richard Rui resigned on 3 February 2017.

(g) Ms Ma Yin Fan and Mr Leung Hoi Ying resigned on 3 February 2017.

(h) Mr Chen Gong and Mr Martin Que Meideng were appointed on 3 February 2017.

(i) Dr Or Ching Fai retired on 30 June 2017.

(j) Mr Lo Wa Kei, Roy was appointed on 17 July 2017.

Bonuses which are discretionary are determined with reference to individual performance. Mr Chiu Tao suspended his salary with effect from October 2010. Mr Chiu Tao had not drawn any salary for the year ended 31 December 2017 and 2016. No other director waived any emoluments in the year. The remuneration of directors is determined by the remuneration committee having regard to the performance of individuals and market trends.

## 11. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (continued)

### For continuing and discontinued operations (continued)

**(b) Employees' Emoluments**

*(i)* Of the five individuals with the highest emoluments in the Group, three (2016: four) were executive directors of the Company whose emoluments are included in the disclosures above. The remaining two (2016: one) individuals were the employees (2016: senior management) and the emoluments were as follows:

| | **2017 USD'000** | 2016 USD'000 |
|---|---|---|
| Salaries and other benefits | **631** | 461 |
| Retirement benefits scheme contributions | **4** | 3 |
| Discretionary bonus | **160** | 155 |
| | **795** | 619 |

Their emoluments were within the following bands:

| | **Number of Employees** | |
|---|---|---|
| | **2017** | 2016 |
| HKD1,500,001 (USD192,491) to HKD2,000,000 (USD256,655) | **1** | – |
| HKD4,000,001 (USD513,310) to HKD4,500,000 (USD577,473) | **1** | – |
| HKD4,500,001 (USD577,473) to HKD5,000,000 (USD641,637) | **–** | 1 |
| | **2** | 1 |

*(ii)* The emoluments of senior management were within the following bands:

| | **Number of Employees** | |
|---|---|---|
| | **2017** | 2016 |
| HKD500,001 (USD64,164) to HKD1,000,000 (USD128,327) | **3** | 4 |
| HKD4,500,001 (USD577,473) to HKD5,000,000 (USD641,637) | **–** | 1 |
| | **3** | 5 |

The senior management of the Group are solely determined by the directors and the senior management for the 2017 are Lau Yue Wah, Brian, David Ki and Nguyen Gia Vinh, Patrick (2016: Arthur Ellis, Lau Yue Wah, Brian, David Ki, Kwan Ka Chung, Kenny and Nguyen Gia Vinh, Patrick). For the year ended 31 December 2016, one (2017: none) of the senior management is included within the five individuals with the highest emoluments in the Group.

**(c)** Save as disclosed above, no emoluments have been paid by the Group to any directors or the five highest paid individuals as an inducement to join or upon joining the Group, or as compensation for loss of office for the year.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

## 11A. TRANSACTIONS, ARRANGEMENTS OR CONTRACTS IN WHICH DIRECTORS OF THE COMPANY HAVE MATERIAL INTERESTS

On 3 November 2015, Marlin Enterprises Limited, Marlin Australia Holdings Pty Ltd and Marlin Group Limited (collectively the "Buyer") and the Group entered into a sale and purchase agreement dated 3 November 2015 ("Sale and Purchase Agreement") in respect of the disposal of the entire issue share capital of G-Resources Martabe Pty Ltd and Capital Squad Limited and their respective subsidiaries. The Buyer was ultimately owned as to 61.4% by funds managed by EMR Capital GP1 Limited, which was owned and advised by EMR Capital Advisors Pty Ltd, 20.6% by funds and accounts managed by Farallon. Funds and accounts managed by Farallon owned 108,385,200 ordinary shares of the Company, which equate to approximately 0.4% of the issued share capital of the Company. Also, Mr Owen L Hegarty was an executive director and vice-chairman of the Company and also the chairman and a less than 30% shareholder of EMR Capital Advisors Pty Ltd. The transaction was completed on 17 March 2016, details were set out in note 31.

## 12. DIVIDEND

No dividend for the years ended 31 December 2016 and 2017 was declared, proposed, or paid for ordinary shareholders of the Company during the year of 2017 and since the end of the reporting period.

## 13. EARNINGS PER SHARE

### From continuing and discontinued operations

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

| | **2017 USD'000** | 2016 USD'000 |
|---|---|---|
| Profit for the year from continuing and discontinued operations attributable to owners of the Company, for the purposes of basic and diluted earnings per share | **31,249** | 127,938 |
| Less: profit for the year from discontinued operation | **–** | (117,653) |
| Profit for the year from continuing operations attributable to owners of the Company, for the purposes of basic and diluted earnings per share | **31,249** | 10,285 |

| | **Number of shares** | |
|---|---|---|
| | **2017** | 2016 |
| Weighted average number of ordinary shares for the purposes of basic and diluted earnings per share | **27,048,844,786** | 26,757,695,478 |

### From discontinued operation

For the year ended 31 December 2016, basic and diluted earnings per share for the discontinued operation is US0.44 cents per share, based on the profit for the year from the discontinued operation of USD117,653,000 and the denominators detailed above for both basic and diluted earnings per share.

The computation of diluted earnings per share does not assume the exercise of the Group's outstanding share options as the exercise price of those options is higher than the average market price for shares for the years ended 31 December 2016 and 2017.

## 14. PROPERTY, PLANT AND EQUIPMENT

| | Buildings USD'000 | Plant and equipment USD'000 | Mining properties USD'000 | Construction in progress USD'000 | Leasehold improvements USD'000 | Furniture, fixtures and equipment USD'000 | Motor vehicles USD'000 | Aircraft USD'000 | Vessel USD'000 | Total USD'000 |
|---|---|---|---|---|---|---|---|---|---|---|
| **COST** | | | | | | | | | | |
| At 1 January 2016 | 17,521 | 262,693 | 814,111 | – | 265 | 9,876 | 1,110 | 26,508 | – | 1,132,084 |
| Exchange realignments | – | – | (131) | – | – | – | – | (15) | – | (146) |
| Additions | – | – | 3,959 | 3,585 | 913 | 421 | – | – | – | 8,878 |
| Transfer from construction in progress | – | – | 3,585 | (3,585) | – | – | – | – | – | – |
| Disposals/written off | – | – | – | – | (910) | (386) | – | – | – | (1,296) |
| Acquisition of subsidiaries (Note 30) | – | – | – | – | 9 | 22 | – | – | – | 31 |
| Disposal of subsidiaries (Note 31) | (17,521) | (262,693) | (821,524) | – | – | (9,579) | (1,110) | – | – | (1,112,427) |
| At 31 December 2016 and 1 January 2017 | – | – | – | – | 277 | 354 | – | 26,493 | – | 27,124 |
| Exchange realignments | (92) | – | – | – | (4) | (3) | – | (205) | (54) | (358) |
| Additions | – | – | – | – | 559 | 77 | – | – | 18,266 | 18,902 |
| Transfer from investment properties (Note 15) | 18,824 | – | – | – | – | – | – | – | – | 18,824 |
| At 31 December 2017 | 18,732 | – | – | – | 832 | 428 | – | 26,288 | 18,212 | 64,492 |
| **ACCUMULATED DEPRECIATION AND IMPAIRMENT** | | | | | | | | | | |
| At 1 January 2016 | 6,952 | 91,913 | 289,278 | – | 265 | 7,462 | 985 | 272 | – | 397,127 |
| Exchange realignments | – | – | (16) | – | – | – | – | – | – | (16) |
| Elimination on disposals/written off | – | – | – | – | (43) | (43) | – | – | – | (86) |
| Provided for the year | 381 | 5,624 | 18,419 | – | 45 | 459 | 29 | 1,628 | – | 26,585 |
| Disposal of subsidiaries (Note 31) | (7,333) | (97,537) | (307,681) | – | – | (7,585) | (1,014) | – | – | (421,150) |
| At 31 December 2016 and 1 January 2017 | – | – | – | – | 267 | 293 | – | 1,900 | – | 2,460 |
| Exchange realignments | (1) | – | – | – | (2) | (3) | – | (50) | (4) | (60) |
| Provided for the year | 250 | – | – | – | 44 | 54 | – | 1,622 | 1,371 | 3,341 |
| Impairment loss recognised in profit or loss | – | – | – | – | – | – | – | 10,587 | – | 10,587 |
| At 31 December 2017 | 249 | – | – | – | 309 | 344 | – | 14,059 | 1,367 | 16,328 |
| **CARRYING VALUES** | | | | | | | | | | |
| At 31 December 2017 | 18,483 | – | – | – | 523 | 84 | – | 12,229 | 16,845 | 48,164 |
| At 31 December 2016 | – | – | – | – | 10 | 61 | – | 24,593 | – | 24,664 |

Construction in progress represents the construction of mine structures and mining site infrastructure for the Martabe Mine.

Depreciation on the mining properties and plant and equipment related to production were provided using the unit of production method ("UOP") based on the actual production volume over the total estimated proved and probable reserves of the gold and silver mine. These estimations were prepared by appropriately qualified party who is independent of the Group.

For the year ended 31 December 2016, the effective depreciation rate of mining properties and plant and equipment related to production is approximately 10% (2017: nil).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

## 14. PROPERTY, PLANT AND EQUIPMENT (continued)

The other items of property, plant and equipment, except for construction in progress, are depreciated on a straight-line basis after taking into account their estimated residual value, at the following rates per annum:

| | |
|---|---|
| Buildings | 2% to 10% |
| Plant and equipment | 12.5% to 25% |
| Leasehold improvements | 10% to 50% or over the terms of the leases whichever is shorter |
| Furniture, fixtures and equipment | 20% to 50% |
| Motor vehicles | 20% to 25% |
| Aircraft | 7% |
| Vessel | 9% |

Note: Depreciation of USD23,542,000 (2017: nil) incurred during the year ended 31 December 2016 were capitalised as inventories of which USD23,282,000 (2017: nil) were subsequently charged to profit or loss as cost of sales during the year ended 31 December 2016 from the discontinued operation.

During the year ended 31 December 2017, the Group recognised an impairment loss of USD10,587,000 (2016: nil). The impairment loss represents the difference carrying amount and the recoverable amount of the aircraft. The recoverable amount was determined based on the quoted price of the aircraft to be disposed of.

## 15. INVESTMENT PROPERTIES

| At fair value | USD'000 |
|---|---|
| At 1 January 2016 | 95,220 |
| Fair value change during the year | 773 |
| Exchange realignments | (59) |
| At 31 December 2016 and 1 January 2017 | 95,934 |
| Fair value change during the year | 6,943 |
| Transferred to property, plant and equipment (Note 14) | (18,824) |
| Exchange realignments | (669) |
| At 31 December 2017 | 83,384 |

The investment properties comprise commercial office units and car park spaces situated in a commercial building in Hong Kong. All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

The fair value of the Group's investment properties at 31 December 2017 and 2016 has been arrived at on the basis of a valuation carried out by Asset Appraisal Limited, independent qualified professional valuers not connected to the Group.

Asset Appraisal Limited has appropriate qualifications and recent experience in the valuation of properties in the relevant locations. The fair value was determined based on direct comparison method that reflects recent transaction prices for similar properties, adjusted for differences in nature, location and condition of the properties under review.

## 15. INVESTMENT PROPERTIES (continued)

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

Details of the Group's investment properties and information about the fair value hierarchy as at 31 December 2016 and 2017 are as follows:

| | **Level 3 2017 USD'000** | Level 3 2016 USD'000 |
|---|---|---|
| Commercial office units in Hong Kong | **79,072** | 92,581 |
| Car parking spaces in Hong Kong | **4,312** | 3,353 |
| | **83,384** | 95,934 |

For the investment properties categorised into Level 3 of the fair value hierarchy, the valuation method used is direct comparison method and the key inputs for valuation technique of the commercial office units in Hong Kong is price per square feet and car parking spaces in Hong Kong is price per car parking space. The price per square feet using market direct comparable and taking into account of location and other individual factors such as floor range and change in market environment for the timing differences of comparable transactions of the range from HKD19,608 to HKD22,863 (2016: the range from HKD18,353 to HKD19,294) and HKD3,360,000 (2016: HKD2,600,000) per car park space. A slight increase in price per square feet and price per car parking space will increase significantly the fair value of commercial office units and car parking spaces respectively.

## 16. AVAILABLE-FOR-SALE INVESTMENTS

| | **2017 USD'000** | 2016 USD'000 |
|---|---|---|
| Listed debt securities, at fair value | | |
| Listed in Hong Kong | | |
| Perpetual Securities at a floating rate of 7.5% (2016: 7.5%) per annum (Notes a, c) | **10,695** | 10,036 |
| Listed outside Hong Kong | | |
| Senior Notes with a fixed coupon interests of ranging from 2.375% to 8.5% (2016: 4.875% to 12%) per annum and maturity dates from 30 November 2019 to 13 November 2024 (2016: 15 January 2019 to 8 August 2021) (Notes a, b) | **98,884** | 100,657 |
| Perpetual Notes at a floating rate of ranging from 4.5% to 7.625% (2016: 6.375% to 7.375%) per annum and it is callable from 23 September 2019 to 16 May 2025 (2016: 10 August 2021 to 30 March 2025) (Notes a, c) | **60,852** | 46,239 |
| Senior Notes at a floating rate of ranging from 2.911% to 5% (2016: 2.361% to 2.992%) per annum with the mature dates from 10 August 2021 to 9 November 2047 (2016: 10 August 2021 to 1 September 2023) (Notes a, d) | **32,835** | 19,499 |
| Unlisted securities | | |
| Managed investment funds (Note e) | **48,107** | 47,977 |
| Other security investments (Note f) | **128,355** | 48,974 |
| Unlisted Perpetual Securities (Note g) | **–** | 30,000 |
| | **379,728** | 303,382 |

## 16. AVAILABLE-FOR-SALE INVESTMENTS (continued)

Notes:

(a) The listed Senior Notes, Perpetual Notes and Perpetual Securities were initially measured at fair value. The fair value at the end of reporting period is determined based on the quoted price from financial institutions supported by observable inputs.

(b) During the year ended 31 December 2017, a decrease in fair value of USD1,328,000 (2016: increase in fair value of USD2,246,000) is recognised in the other comprehensive income. Two senior notes were redeemed and the gain on disposal of available-for-sale investments are USD3,246,000. During the year ended 31 December 2016, one of the senior notes was partially sold and the gain on disposal of available-for-sale investments was USD5,000.

(c) The interest rate is subject to change at reset day with reset rate ranging from 2.648% to 7.773% (2016: from 3.705% to 6.301%) plus mid-market swap rate or USD 5 years mid-swap rate or the prevailing yield for U.S. Treasury Securities at a constant maturity having a designated maturity of 5 years or 3 months USD LIBOR or semi-annual USD 5 years mid-swap rate. During the year ended 31 December 2016, one of the perpetual notes was sold and the gain on disposal of available-for-sale investments is USD26,000. During the year ended 31 December 2017, an increase in fair value of USD3,917,000 (2016: USD1,283,000) is recognised in the other comprehensive income.

(d) The interest rate is subject to change at reset day with reset rate ranging from 1.400% to 3.472% (2016: from 1.430% to 2.110%) plus 3 months USD LIBOR or the prevailing yield for U.S. Treasury Securities at a constant maturity having a designated maturity of 5 years or USD 5 years mid-swap rate. During the year ended 31 December 2017, an increase in fair value of USD443,000 (2016: USD77,000) is recognised in the other comprehensive income.

(e) The Group held four (2016: four) unlisted investment funds which are managed by financial institutions and invest in real estate properties, financial products and unlisted equity investments, respectively. The financial products include listed equity shares, straight bonds, convertible bond, REITs, business trusts and derivatives. The fair value of the real estate properties is determined by the market transaction prices of similar properties of the relevant locations. The underlying financial products and unlisted equity investment are valued at quoted prices in the open market or observable prices of comparable investments, or measured using valuation techniques in which significant input is based on observable market data. During the year ended 31 December 2017, an increase in fair value of USD2,831,000 (2016: USD2,800,000) is recognised in the other comprehensive income. The Group received a return of capital from one of its unlisted investments funds of USD2,700,000 (2016: USD5,189,000) plus distribution of USD3,644,000 (2016: USD377,000).

(f) The other security investments of the Group include an investment through partnership with the carrying value of USD5,949,000 (2017: nil) which was stated at fair value as at 31 December 2016. In the absence of quoted market price in an active market, the fair value measurement is determined by the financial institution using valuation techniques including earnings multiples (based on the budget earnings or historical earnings of the issuer and earnings multiples of comparable listed companies) and discounted cash flows. The valuation may be adjusted for factors such as non-maintainable earnings, tax risk, growth stage and cash traps as deemed necessary by the financial institution.

During the year ended 31 December 2017, the Group received a return of capital of USD5,000,000 plus gain of USD233,000. The decrease in fair value of USD716,000 (2016: USD170,000) was recognised in the other comprehensive income.

The remaining investments through partnership or direct investment with an aggregate carrying value of USD128,355,000 (2016: USD43,025,000) represent eight (2016: seven) other security investments which were stated at cost less impairment loss as the range of reasonable fair value estimates are so significant and the directors of the Company are of the opinion that the fair value cannot be measured reliably. As at 31 December 2017, three out of these eight (2016: seven) other security investments accounted for 79% (2016: 85%) of the aggregate carrying value, with the investment portfolio is focused in unlisted equity investments in technology, media and telecommunications industry, healthcare industry and information technology companies in finance industry (2016: unlisted equity investments in information technology companies in consumer business and finance industry).

During the year ended 31 December 2017, the Group received returns of capital from two (2016: one) of its unlisted securities investments of USD7,121,000 (2016: USD1,855,000) and plus distribution of USD1,452,000 (2016: USD1,179,000).

## 16. AVAILABLE-FOR-SALE INVESTMENTS (continued)

Notes: (continued)

(g) On 29 December 2015, the Group subscribed for 9% perpetual securities ("Unlisted Perpetual Securities") with principal amount of USD30,000,000 at a consideration of USD29,700,000. The consideration was settled in cash by the Group. The issuer is a public limited company with its shares listed on the Main Board of the Hong Kong Stock Exchange.

The Unlisted Perpetual Securities were initially measured at fair value. In the absence of quoted market price in an active market, the fair value measurements are derived from valuation techniques using the discounted cash flow model that include inputs for the assets or liabilities that are not based on observable market data (unobservable inputs). During the year ended 31 December 2016, an increase in fair value of USD180,000 (2017: Nil) was recognised in the other comprehensive income.

The fair value of the Unlisted Perpetual Securities as at 31 December 2016 was determined using the discounted cash flow model with the following assumptions:

| | 2016 |
|---|---|
| Discount rate | 9.481% |
| Expected life | 2 years |

During the year ended 31 December 2017, the issuer redeemed the Unlisted Perpetual Securities and the Group received the principal of USD30,000,000 and recognised a gain of USD300,000.

## 17. ACCOUNTS AND OTHER RECEIVABLES AND DEPOSITS

| | **2017 USD'000** | 2016 USD'000 |
|---|---|---|
| Accounts receivables from the business of dealing in securities: | | |
| Cash and custodian clients (Note a) | **–** | 72 |
| Margin clients (Note b) | **10,617** | 19,468 |
| Clearing house (Note a) | **50** | 12 |
| Accounts receivables | **10,667** | 19,552 |
| Less: Impairment allowance (Note c) | **–** | – |
| Other receivables and deposits, net of allowance (Note d) | **5,276** | 15,201 |
| Less: Other receivable and deposits classified as non-current assets (Note d) | **(1,906)** | (13,357) |
| Accounts and other receivables classified as current assets | **14,037** | 21,396 |

Notes:

(a) The normal settlement terms of accounts receivables from cash and custodian clients and securities clearing houses are two business days after trade date. As at 31 December 2017, accounts receivables from cash and custodian clients which are neither past due nor impaired represent unsettled client trades on various securities exchanges transacted on the last two to three business days prior to the period end date. No ageing analysis is disclosed as, in the opinion of the directors of the Company, an ageing analysis does not give additional value in view of the nature of these accounts receivables.

(b) Advances to customers on margin financing are secured by clients' pledged securities with fair value of USD83,147,000 (2016: USD159,311,000). Significant portion of the pledged securities are listed equity securities in Hong Kong. The loans are repayable on demand subsequent to settlement date and carry interest typically at 8.5% to 9% (2016: 8.5% to 13.5%) per annum as at 31 December 2017. Securities are assigned with specific margin ratios for calculating their margin values. Additional funds or collateral are required if the outstanding amount exceeds the eligible margin value of securities deposited. The collateral held can be repledged and can be sold at the Group's discretion to settle any outstanding amount owed by margin clients.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

## 17. ACCOUNTS AND OTHER RECEIVABLES AND DEPOSITS (continued)

Notes: (continued)

(c) Impairment loss on advances to customers on margin financing

Impairment loss in respect of advances to customers on margin financing is recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against advances to customers on margin financing directly.

The Group held collateral of listed equity securities with a fair value of USD83,147,000 (2016: USD159,311,000) at the end of the reporting period in respect of advances to customers on margin financing. No impairment allowance has been made for advances to customers on margin financing with an aggregate outstanding balance of USD10,617,000 (2016: USD19,468,000) based on the Group's evaluation of their collectability.

(d) As at 31 December 2017, included in other receivable are deferred cash consideration recoverable amounting to USD1,691,000 (2016: USD13,304,000) in relation to the disposal of mining business.

## 18. INTERESTS IN ASSOCIATES

| | **2017 USD'000** | 2016 USD'000 |
|---|---|---|
| Cost of investment in associates, unlisted | **931** | – |
| Share of post-acquisition results and other comprehensive expense | **(33)** | – |
| | **898** | – |

The principal activities of the associates directly held by the Group are investment holding and their subsidiaries engaged in financial service business.

***Aggregate information of associates that are not individually material***

The summarised information below represents the aggregate amount of the Group's share of its interests in associates which are not individually material.

All of these associates are accounted for using the equity method in these consolidated financial statements.

| | **2017 USD'000** | 2016 USD'000 |
|---|---|---|
| The Group's share of loss and total comprehensive expense for the year | **(33)** | – |
| Aggregate carrying amount of the Group's interests in these associates | **898** | – |

## 19. INTANGIBLE ASSETS

| | Trading right USD'000 |
|---|---|
| **COST** | |
| At 1 January 2016 | – |
| Arising on acquisition of subsidiaries (Note 30) | 455 |
| At 31 December 2016 and 1 January 2017 | 455 |
| Additions | 64 |
| Exchange realignments | (4) |
| At 31 December 2017 | 515 |
| **ACCUMULATED AMORTISATION AND IMPAIRMENT** | |
| At 1 January 2016, 31 December 2016, 1 January 2017 and 31 December 2017 | – |
| **CARRYING VALUES** | |
| At 31 December 2017 | 515 |
| At 31 December 2016 | 455 |

Trading rights confer a right to the Group to trade securities, options contracts and futures contracts on or through the Hong Kong Stock Exchange such that the Group can conduct the business of securities brokerage.

Trading right is considered by the directors of the Company as having indefinite useful life because there is no foreseeable limit on the period over which the trading right is expected to generate cash flows to the Group. Trading right is not amortised until its useful life is determined to be finite. Instead, it is tested for impairment annually and whenever there is an indication that it may be impaired. For such purposes, trading right is allocated to the businesses of securities brokerage, placing and underwriting services and margin financing as one cash generating unit ("CGU").

For the years ended 31 December 2017 and 2016, the management of the Group determines that there are no impairments of its CGU containing intangible asset with indefinite useful lives.

For the purposes of impairment testing, trading rights with indefinite useful lives have been allocated to the CGU, comprising one subsidiary in the financial services segment. The carrying amounts of trading rights as at 31 December 2017 allocated to this unit are USD515,000 (2016: USD455,000).

The recoverable amount of the CGU has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by the management covering a five-year period, and discount rate of 16.2% (2016: 15.64%). The cash flows beyond the five-year period are extrapolated using a steady 3% (2016: 3%) growth rate. This growth rate is based past performance and the management's expectations for the market development. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted revenue and such estimation is based on the unit's past performance and the management's expectations for the market development.

The management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of the CGUs to exceed the aggregate recoverable amount of CGUs.

## 20. GOODWILL

| | USD'000 |
|---|---|
| **COST** | |
| At 1 January 2016 | – |
| Arising on acquisition of subsidiaries (Note 30) | 1,481 |
| Exchange realignments | (1) |
| At 31 December 2016 and 1 January 2017 | 1,480 |
| Exchange realignments | (11) |
| At 31 December 2017 | 1,469 |
| **ACCUMULATED IMPAIRMENT** | |
| At 1 January 2016, 31 December 2016, 1 January 2017 and 31 December 2017 | – |
| **CARRYING VALUES** | |
| At 31 December 2017 | 1,469 |
| At 31 December 2016 | 1,480 |

For the purposes of impairment testing, goodwill has been allocated to group of CGUs comprising the business of securities brokerage, placing and underwriting services, margin financing, advisory and money lending.

For the years ended 31 December 2017 and 2016, the management of the Company determines that there are no impairments of its CGUs containing goodwill.

For the purposes of impairment testing, the basis of the recoverable amounts of the above CGUs and their major underlying assumptions are summarised below:

The recoverable amount of the CGUs has been determined based on a value in use calculation. That calculation uses cash flow projections based on financial budgets approved by the management covering a five-year period, and discount rate of 15.2% (2016: 14.64%). The cash flows beyond the five-year period are extrapolated using a steady 3% (2016: 3%) growth rate. This growth rate is based past performance and the management's expectations for the market development. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted revenue and such estimation is based on the unit's past performance and management's expectations for the market development.

The management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of the CGUs to exceed the aggregate recoverable amount of CGUs.

## 21. LOANS RECEIVABLE

| | 2017<br>USD'000 | 2016<br>USD'000 |
|---|---|---|
| Fixed-rate loans receivable, current | **15,266** | 15,868 |

The range of effective interest rate (which are fixed rates, also equal to contractual interest rates) on the Group's loans receivable is 7.5% to 36.0% (2016: 7.5% to 35.0%) per annum. The contractual maturity date of the loans receivable ranges from less than one month to two years (2016: less than one month to two years) and are all denominated in HKD.

As at 31 December 2017, loans receivable of USD15,266,000 (2016: USD15,868,000) are unsecured.

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

As at 31 December 2017, included in the Group's loans receivable balance, an aggregate carrying amount of USD794,000 (2016: USD3,902,000) which is past due as at the reporting date for which the Group has not provided for impairment loss. The Group received USD794,000 (2016: USD3,798,000) subsequent to the date of reporting period. As at 31 December 2016, the management believes that no impairment allowance is necessary in respect of the remaining loans receivable as there is no significant change in credit quality and the balances are still considered fully recoverable.

## 22. HELD FOR TRADING INVESTMENTS

| | 2017<br>USD'000 | 2016<br>USD'000 |
|---|---|---|
| Equity instruments listed in Hong Kong, at fair value | **78,719** | 72,391 |

All held for trading investments are Hong Kong listed equity instruments held by the Group as at the end of the reporting period. The fair value is determined based on the closing price per share quoted on the Hong Kong Stock Exchange and quoted market bid price as at the end of the respective reporting periods apart from the shares which was suspended from trading as described below.

During the year ended 31 December 2017, one of the held for trading investments of USD12,610,000 was suspended from trading. As there was an absence of quoted prices for the shares which was suspended from trading, the fair value was determined by valuation conducted by an independent valuer. The fair value was estimated by Finnerty model to derive a discount for lack of marketability. The model uses unobservable data inputs, which include stock price, volatility, dividend yield, the expected suspension period and the liquidity discount rate.

## 23. CONVERTIBLE BOND/DERIVATIVE COMPONENT IN CONVERTIBLE BOND

During the year ended 31 December 2017, the Group acquired a convertible bond issued by an independent party, a listed issuer in Hong Kong from two independent third parties, with an aggregate principal amount of USD9,018,000 (which is denominated in HKD with the principal amount of HKD70,000,000), which carried interest at 8% per annum payable on 18 November 2017 with maturity on the same date at a redemption amount of 100% of the principal amount.

The convertible bond could be converted into ordinary share of the listed company in Hong Kong at any time from the initial issue date before the maturity date. The fair value at initial recognition of the debt component and derivative component, which amounted to USD8,297,000 (equivalent to HKD64,402,000) and USD933,000 (equivalent to HKD7,240,000) respectively, were determined based on the valuation provided by Roma Appraisals Limited, independent professional qualified valuers not connected with the Group. Subsequent to the initial recognition, the debt component was carried at amortised cost using the effective interest method and the derivative component was carried at fair value.

The convertible bond was matured on 18 November 2017 and the Group received the principal amount and unpaid interest of the convertible bond.

The Group's convertible bond is recognised as follows:

| | Debt component USD'000 | Derivative component USD'000 |
|---|---|---|
| At acquisition date on 6 March 2017 | 8,297 | 933 |
| Accretion of interest | 1,437 | – |
| Fair value loss recognised in profit or loss | – | (929) |
| Proceeds from redemption of convertible bond | (8,961) | – |
| Interest received | (717) | – |
| Exchange realignment | (56) | (4) |
| At 31 December 2017 | – | – |

The methods and assumptions applied for the valuation of the convertible bond are as follows:

(i) Valuation of debt component

At initial recognition, the fair value of debt component was calculated based on the present value of contractually determined stream of future cash flows discounted at the required yield, which was determined with reference to the credit risk of the convertible bonds issuer and maturity term of the convertible bond. The effective interest rate of the debt component was 23.71%.

(ii) Valuation of derivative component

Derivative component was measured at fair value using the Trinomial Option Pricing Model, at initial recognition. The inputs into the model as at date of acquisition were as follows:

| | 6 March 2017 |
|---|---|
| Stock price | HKD0.330 |
| Conversion price | HKD0.350 |
| Volatility | 37.419% |
| Dividend yield | 0% |
| Option life | 0.7 year |
| Risk free rate | 1.171% |

## 24. BANK TRUST ACCOUNTS BALANCES

The Group maintains segregated trust accounts with licensed financial institutions to hold clients' monies arising from the business of dealing in securities. The Group has classified the clients' monies as cash held on behalf of customers under the current assets of the consolidated statement of financial position and recognised the corresponding accounts payables to respective clients on grounds that it is liable for any loss or misappropriation of clients' monies. The Group is not allowed to use the clients' monies to settle its own obligations.

## 25. BANK BALANCES AND CASH

Bank balances carry interest at market rates which range from 0.001% to 2.800% (2016: 0.001% to 1.810%) per annum.

## 26. ACCOUNTS AND OTHER PAYABLES

| | **2017**<br>**USD'000** | 2016<br>USD'000 |
|---|---|---|
| Accounts payables from the business of dealing in securities: (Note a) | | |
| Cash and custodian clients | **392** | 284 |
| Margin clients | **949** | 230 |
| Other payables (Note b) | **14,054** | 12,557 |
| | **15,395** | 13,071 |

Notes:

(a) The normal settlement terms of accounts payables to clients are two business days after trade date. No ageing analysis is disclosed for the accounts payables from the business of dealing in securities as, in the opinion of directors of the Company, the ageing analysis does not give additional value in view of the nature of business of securities margin financing.

(b) As at 31 December 2017, included in other payables are USD9,839,000 (2016: USD9,847,000) relating to the liabilities arising from the disposal of mining business.

## 27. DEFERRED TAX LIABILITIES

The following is the major deferred tax liabilities recognised and movements thereon during the current year and prior year:

| | Undistributed profits of subsidiary USD'000 | Accelerated tax depreciation USD'000 | Total USD'000 |
|---|---|---|---|
| At 1 January 2016 | 12,229 | 42,376 | 54,605 |
| Charged to profit or loss in relation to discontinued operation | 1,499 | 2,624 | 4,123 |
| Disposals of subsidiaries (Note 31) | (13,728) | (45,000) | (58,728) |
| Arising from acquisition of subsidiaries (Note 30) | – | 64 | 64 |
| At 31 December 2016, 1 January 2017 and 31 December 2017 | – | 64 | 64 |

At the end of the reporting period, the Group has unused tax losses of USD62,260,000 (2016: USD69,583,000) available for offset against future profits. During the year ended 31 December 2016, there was an acquisition of subsidiaries with unused tax losses of USD2,293,000. No deferred tax asset has been recognised in respect of unused tax losses due to the unpredictability of future profits streams. The tax losses may be carried forward indefinitely.

## 28. SHARE CAPITAL

| | Number of shares | Value USD'000 |
|---|---|---|
| Authorised: | | |
| Ordinary shares of HKD0.01 each | | |
| At 1 January 2016, 31 December 2016, 1 January 2017 and 31 December 2017 | 60,000,000,000 | 76,923 |
| Issued and fully paid: | | |
| Ordinary shares of HKD0.01 each | | |
| At 1 January 2016 | 26,564,478,210 | 34,246 |
| Issue of shares in lieu of cash dividends (Note) | 484,366,576 | 625 |
| At 31 December 2016, 1 January 2017 and 31 December 2017 | 27,048,844,786 | 34,871 |

Note: On 8 August 2016, the Company issued and allotted 484,366,576 new ordinary shares of HKD0.01 each at an issue price of HKD0.1442 per share to the shareholders who elected to receive shares in the Company in lieu of cash for the 2015 final dividend pursuant to the scrip dividend scheme announced by the Company on 29 June 2016. Accordingly, USD625,000 (equivalent to HKD4,844,000) was credited to share capital and USD8,383,000 (equivalent to HKD65,002,000) was credited to share premium.

All the shares issued by the Company during the year ended 31 December 2016 rank pari passu with the then existing ordinary shares in all respects.

## 29. SHARE-BASED PAYMENT TRANSACTIONS

The Company's share option scheme was adopted pursuant to a resolution passed on 30 July 2004 (the "2004 Scheme"), for the purpose of providing incentives or rewards to directors, employees, invested entities, suppliers and customers of the Group and entities that provide research, development or technological support or other services to the Group, any shareholders of any members of the Group or any invested entities or any holders of any securities issued by any members of the Group or any invested entities. The 2004 Scheme expired on 29 July 2014. Under the 2004 Scheme, the Board of Directors of the Company might grant options to eligible employees, including executive directors of the Company or its subsidiaries, to subscribe for shares in the Company. The Company adopted a new share option scheme pursuant to a resolution passed by shareholders on 18 June 2014 (the "2014 Scheme") for the purpose of providing incentives or rewards to directors, employees, customers, suppliers, providers of research, development or technical support, shareholders and holders of securities of the Group and its invested entities, in which the Group holds not less than 10% equity interest ("Eligible Participants"). Under the 2014 Scheme, the Board of Directors may grant options to Eligible Participants to subscribe for shares in the Company.

The maximum number of shares of the Company which may be issued upon exercise of all outstanding options granted and yet to be exercised under the 2004 Scheme and 2014 Scheme or any other share option scheme adopted by the Company must not in aggregate exceed 30% of its issued share capital from time to time. The total number of shares which may be issued upon exercise of all options to be granted under the 2004 Scheme and 2014 Scheme and any other share option scheme of the Group must not in aggregate exceed 10% of the shares in issue unless it is approved by shareholders in a general meeting of the Company. The maximum number of shares issuable under the options to each eligible participant in any twelve-month period is limited to 1% of the shares in issue unless it is approved by shareholders in a general meeting of the Company. Any grant of options under the 2004 Scheme and 2014 Scheme to a director, chief executive or substantial shareholder of the Company or any of their respective associates must be approved by independent non-executive directors (excluding any independent non-executive director who is the grantee of the options). Any share options granted to a substantial shareholder or an independent non-executive director of the Company or to any of their respective associates, in excess of 0.1% of the shares in issue and with an aggregate value (based on the closing price of the shares at the date of grant) in excess of HKD5,000,000 (approximately USD641,000), in any 12-month period, are subject to shareholders' approval in a general meeting of the Company.

As at 31 December 2016, the number of shares of the Company in respect of which options had remained outstanding under the 2004 Scheme of the Company was 24,006,125 (2017: nil), representing 0.1% (2017: nil) of the shares of the Company in issue at that date.

No option was granted during the years ended 31 December 2017 and 2016.

Options granted must be taken up within 28 days of the date of grant, upon payment of HKD1 as the consideration for accepting the grant. The exercise period of the share options granted under the 2004 Scheme shall be determined by the Board of Directors when such options are granted, provided that such period shall not end more than ten years from the date of grant.

## 29. SHARE-BASED PAYMENT TRANSACTIONS (continued)

The exercise price is determined by the Board of Directors of the Company, and will not be less than the highest of the closing price of the Company's shares at the date of grant, the average closing price of the Company's shares for the five trading days immediately preceding the date of grant and the nominal value of the Company's shares.

The following table discloses the movements of the Company's share options for the reporting period:

### Share options granted under 2004 Scheme

| Category of Participants | Date of grant | Exercise period | Exercise price per share HKD | Adjusted exercise price per share HKD Note 4 | Notes | Outstanding at 01.01.2016 | Granted during the year | Exercised during the year | Transfer from employee to others during the year | Lapsed during the year | Forfeited during the year | Outstanding at 01.01.2017 | Granted during the year | Exercised during the year | Lapsed during the year | Forfeited during the year | Outstanding at 31. 12. 2017 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Directors | 3.3.2011 | 3.3.2011–2.3.2016 | 0.70 | 0.6196 | 1 | 112,970,000 | – | – | – | (112,970,000) | – | – | – | – | – | – | – |
| Employees | 2.3.2011 | 2.3.2011–1.3.2016 | 0.70 | 0.6196 | 1 | 19,204,900 | – | – | – | (19,204,900) | – | – | – | – | – | – | – |
| | 8.7.2011 | 8.7.2011–7.7.2016 | 0.77 | 0.6816 | 2 | 13,273,975 | – | – | (12,144,275) | (1,129,700) | – | – | – | – | – | – | – |
| | 3.1.2012 | 3.1.2012–2.1.2017 | 0.60 | 0.5311 | 3 | 20,617,025 | – | – | (20,617,025) | – | – | – | – | – | – | – | – |
| | 10.1.2012 | 10.1.2012–9.1.2017 | 0.60 | 0.5311 | 3 | 3,389,100 | – | – | (3,389,100) | – | – | – | – | – | – | – | – |
| Others | 8.7.2011 | 8.7.2011–7.7.2016 | 0.77 | 0.6816 | 2 | – | – | – | 12,144,275 | (12,144,275) | – | – | – | – | – | – | – |
| | 3.1.2012 | 3.1.2012–2.1.2017 | 0.60 | 0.5311 | 3 | – | – | – | 20,617,025 | – | – | 20,617,025 | – | – | (20,617,025) | – | – |
| | 10.1.2012 | 10.1.2012–9.1.2017 | 0.60 | 0.5311 | 3 | – | – | – | 3,389,100 | – | – | 3,389,100 | – | – | (3,389,100) | – | – |
| | | | | | | 169,455,000 | – | – | – | (145,448,875) | – | 24,006,125 | – | – | (24,006,125) | – | – |
| Exercisable at the end of the year | | | | | | 169,455,000 | | | | | | 24,006,125 | | | | | – |
| Weighted average exercise price (HKD) | | | | | | 0.61 | – | – | – | 0.63 | – | 0.53 | – | – | 0.53 | – | – |

Notes:

1. The share options will vest upon the occurrence of:

   i) as to 50%, upon the first gold production by G-Resources Martabe Pty Ltd and its subsidiary under the Martabe Mine;

   ii) as to 25%, upon the process plant of the Martabe Mine being in operation and having reached its designed capacity of not less than a monthly average of gold production of 90% of the board approved production output for that year over a period of any six consecutive months after the first gold production at the Martabe Mine; and

   iii) as to 25%, upon the process plant of the Martabe Mine being in operation and having reached its designed capacity of not less than a monthly average of gold production of 90% of the board approved production output for that year over a period of any twelve consecutive months after the first gold production at the Martabe Mine,

   provided always that, in each case, no share options shall be vested at any time prior to the expiry of twelve months from the date of grant of the share options.

## 29. SHARE-BASED PAYMENT TRANSACTIONS (continued)

### Share options granted under 2004 Scheme (continued)

Notes: (continued)

2. The share options will vest upon the occurrence of:

   i) as to 50%, 90 days after the first gold production by G-Resources Martabe Pty Ltd and its subsidiary under the Martabe Mine;

   ii) as to 25%, upon the process plant of the Martabe Mine being in operation and having reached its designed capacity of not less than a monthly average of gold production of 90% of the board approved production output for that year over a period of any six consecutive months after the first gold production at the Martabe Mine; and

   iii) as to 25%, upon the process plant of the Martabe Mine being in operation and having reached its designed capacity of not less than a monthly average of gold production of 90% of the board approved production output for that year over a period of any twelve consecutive months after the first gold production at the Martabe Mine,

   provided always that, in each case, no share options shall be vested at any time prior to the expiry of twelve months from the date of grant of the share options.

3. The share options will vest upon the occurrence of:

   i) as to 50%, 180 days after the first gold production by G-Resources Martabe Pty Ltd and its subsidiary under the Martabe Mine;

   ii) as to 25%, upon the process plant of the Martabe Mine being in operation and having reached its designed capacity of not less than a monthly cumulated average of gold production of 90% of the board approved production output for that year over a period of any six consecutive months after the first gold production at the Martabe Mine; and

   iii) as to 25%, upon the process plant of the Martabe Mine being in operation and having reached its designed capacity of not less than a monthly cumulated average of gold production of 90% of the board approved production output for that year over a period of any twelve consecutive months after the first gold production at the Martabe Mine,

   provided always that, in each case, no share options shall be vested at any time prior to the expiry of nine months from the date of grant of the share options.

4. The Company has made adjustments to the outstanding share options upon the completion of the rights issue which was announced on 28 August 2013 and completed on 7 October 2013.

## 29. SHARE-BASED PAYMENT TRANSACTIONS (continued)

### Share options granted under 2004 Scheme (continued)

No share option was granted for the years ended 31 December 2017 and 2016. During the year ended 31 December 2017, the Group transferred from share option reserve to retained earnings amounting to USD286,000 (2016: USD3,633,000) upon unvested share options lapsed.

The following assumptions were used to calculate the fair values of share options:

| Grant date | 3 January 2012 | 3 January 2012 | 3 January 2012 | 10 January 2012 | 10 January 2012 | 10 January 2012 |
|---|---|---|---|---|---|---|
| Lot | A1 | A2 | A3 | 1 | 2 | 3 |
| Weighted average share price on date of grant* | HKD0.439 | HKD0.439 | HKD0.439 | HKD0.417 | HKD0.417 | HKD0.417 |
| Exercise price* | HKD0.600 | HKD0.600 | HKD0.600 | HKD0.600 | HKD0.600 | HKD0.600 |
| Expected life | 2.9 years | 3.0 years | 3.3 years | 2.9 years | 3.0 years | 3.3 years |
| Expected volatility | 58.68% | 63.42% | 68.17% | 58.64% | 61.88% | 68.23% |
| Dividend yield | 0% | 0% | 0% | 0% | 0% | 0% |
| Risk-free interest rate | 0.496% | 0.527% | 0.581% | 0.487% | 0.513% | 0.567% |

| Grant date | 8 July 2011 | 8 July 2011 | 8 July 2011 | 3 January 2012 |
|---|---|---|---|---|
| Tranche/Lot | 1 | 2 | 3 | B |
| Weighted average share price on date of grant* | HKD0.649 | HKD0.649 | HKD0.649 | HKD0.439 |
| Exercise price* | HKD0.770 | HKD0.770 | HKD0.770 | HKD0.600 |
| Expected life | 3.0 years | 3.3 years | 3.5 years | 2.6 years |
| Expected volatility | 61.82% | 62.52% | 64.18% | 56.59% |
| Dividend yield | 0% | 0% | 0% | 0% |
| Risk-free interest rate | 0.711% | 0.833% | 0.937% | 0.452% |

| Grant date | 2 March 2011 | 2 March 2011 | 2 March 2011 | 3 March 2011 | 3 March 2011 | 3 March 2011 |
|---|---|---|---|---|---|---|
| Lot | 1 | 2 | 3 | 1 | 2 | 3 |
| Weighted average share price on date of grant* | HKD0.546 | HKD0.546 | HKD0.546 | HKD0.547 | HKD0.547 | HKD0.547 |
| Exercise price* | HKD0.700 | HKD0.700 | HKD0.700 | HKD0.700 | HKD0.700 | HKD0.700 |
| Expected life | 3.0 years | 3.5 years | 3.7 years | 3.0 years | 3.5 years | 3.7 years |
| Expected volatility | 66.51% | 67.81% | 65.94% | 66.53% | 67.82% | 65.95% |
| Dividend yield | 0% | 0% | 0% | 0% | 0% | 0% |
| Risk-free interest rate | 1.062% | 1.250% | 1.361% | 1.099% | 1.283% | 1.393% |

* Before the adjustments for the right issue

The Black-Scholes Option Pricing Model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. Changes in variables and assumptions may result in changes in the fair value of the options.

Expected volatility was determined by using the volatility of a set of companies in the mining industry. The expected life used in the model has been adjusted, based on the management's best estimate, for the effects of non transferability, exercise restrictions and behavioral considerations. At each reporting date, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the estimates, if any, is recognised in profit and loss, with a corresponding adjustment to the share options reserve.

## 30. ACQUISITION OF SUBSIDIARIES/BUSINESS

On 30 March 2016, the Group served a notice to exercise its conversion right to convert a convertible bond with principal amount of USD17,415,000 (which is denominated in HKD of HKD135,000,000) issued by Enhanced Financial Services Group Limited ("EFSG"). Upon the conversion of the convertible bond on 30 March 2016, 135,000,000 ordinary shares of EFSG with par value of HKD1 each were issued to the Group, which represent 75% of the issued share capital of EFSG. The consideration of USD17,460,000 was determined with reference to the fair value of convertible bond at the date of conversion. This acquisition has been accounted for using the purchase method. The amount of goodwill arising as a result of the acquisition was USD1,481,000. EFSG and its subsidiaries ("Enhanced Group") are engaged in the financial service business. EFSG was acquired so as to expend the Group's financial service business.

| | USD'000 |
|---|---|
| **Consideration transferred:** | |
| Fair value of convertible bond at the date of acquisition | 17,460 |
| Total | 17,460 |

The acquisition-related costs of the acquisition were insignificant.

| | 30 March 2016<br>USD'000 |
|---|---|
| **Assets acquired and liabilities recognised at the date of acquisition are as follows:** | |
| Property, plant and equipment | 31 |
| Intangible assets | 455 |
| Accounts and other receivables and deposits | 610 |
| Loans receivable | 27,793 |
| Bank trust accounts balances | 420 |
| Bank balances and cash | 5,518 |
| Accounts and other payables | (561) |
| Loan from the Group | (12,897) |
| Tax payable | (108) |
| Deferred tax liabilities | (64) |
| Net assets acquired at | 21,197 |

The fair value of account and other receivables and deposits and loans receivable at the date of acquisition amounted to USD610,000 and USD27,793,000 respectively. The gross contractual amounts of those accounts and other receivables and loans receivable acquired amounted to USD709,000 and USD27,930,000 respectively at the date of acquisition. The best estimate at acquisition date of the contractual cash flows not expected to be collected amounted to USD99,000 and USD137,000 respectively.

| | 30 March 2016<br>USD'000 |
|---|---|
| **Goodwill arising on acquisition:** | |
| Consideration transferred | 17,460 |
| Non-controlling interests | 5,218 |
| Less: net assets acquired | (21,197) |
| Goodwill arising on acquisition | 1,481 |

The non-controlling interests (25%) in EFSG recognised at the acquisition date were measured at its proportionate share of recognised amounts of EFSG's identifiable net assets.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

## 30. ACQUISITION OF SUBSIDIARIES/BUSINESS (continued)

Goodwill arose in the acquisition of EFSG because the cost of the combination included a control premium. In addition, the consideration transferred for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of EFSG. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

None of the goodwill arising on these acquisitions is expected to be deductible for tax purposes.

| | 30 March 2016<br>USD'000 |
|---|---|
| **Net cash inflow arising on acquisition of EFSG:** | |
| Cash consideration paid | – |
| Bank balances and cash acquired | 5,518 |
| | 5,518 |

For the year ended 31 December 2016, included in the profit for the year is USD1,529,000 attributable to the additional business generated by Enhanced Group. Revenue for the year includes USD3,957,000 generated from Enhanced Group.

Had the acquisition been completed on 1 January 2016, total group revenue for the year would have been USD30,851,000, and profit for the year would have been USD10,666,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2016, nor is it intended to be a projection of future results.

## 31. DISPOSAL OF BUSINESS/SUBSIDIARIES

As referred to in note 10, on 17 March 2016, the Group discontinued its mining business at the time of disposal of the Martabe Mine and other companies ("mining business"). The net assets of mining business at the date of disposal were as follows:

| | USD'000 |
|---|---|
| **Consideration received and receivables:** | |
| Net cash received | 809,392 |
| Deferred cash consideration (Note a) | 13,655 |
| Contingent payment (Note b) | – |
| Other payables (Note a) | (9,824) |
| Total consideration received and receivables | 813,223 |

Notes:

(a) The amount of the working capital entitlements under the sale and purchase agreement is not finalised, the deferred cash consideration and other payables are subjected to change.

## 31. DISPOSAL OF BUSINESS/SUBSIDIARIES (continued)

Notes: (continued)

(b) Pursuant to the sale and purchase agreement entered into with the buyer, the buyer shall pay, or procure the payment of, a contingent payment of USD130,000,000 to the Group on 31 December 2019 if the arithmetic mean of the price of gold set by the ICE Benchmark Administration on each business day in London at 3:00 p.m. (London time), expressed in USD per fine troy ounce (which is currently published on the website of the London Bullion Market Association) or, if the price of gold ceases to be set by the ICE Benchmark Administration prior to 1 January 2019, the price of gold set by any other person selected by Intercontinental Exchange and the London Bullion Market Association to perform this function ("Gold Fix") as published on each business day in London during any period of 365 consecutive calendar days between 17 March 2016 and 1 January 2019 is USD1,500 or more ("Gold Fix Target"). The "arithmetic mean" will be the sum of the Gold Fix for each business day in London during this period of 365 consecutive calendar days, divided by the number of business days in London during that period. No adjustment is made on the contingent payment as its fair value is considered to be insignificant as based on the gold price as at 31 December 2017 and 2016, it will require a substantial increase before the gold price will reach USD1,500 per fine troy ounce.

| | 17 March 2016<br>USD'000 |
|---|---|
| **Analysis of assets and liabilities over which control was lost:** | |
| Property, plant and equipment | 691,277 |
| Exploration and evaluation assets | 29,466 |
| Accounts and other receivables | 52,490 |
| Inventories | 58,163 |
| Bank balances and cash | 25,100 |
| Accounts and other payables | (39,094) |
| Tax payable | (10,677) |
| Deferred tax liabilities | (58,728) |
| Provision for mine rehabilitation cost | (21,122) |
| Net assets disposed of | 726,875 |
| **Gain on disposal of mining business:** | |
| Consideration received and receivables | 813,223 |
| Net assets disposed of | (726,875) |
| Non-controlling interests | 24,014 |
| Cumulative exchange differences in respect of the net assets of the subsidiaries reclassified from equity to profit or loss on loss of control of the subsidiaries | (304) |
| Gain on disposal | 110,058 |
| **Net cash inflow arising on disposal:** | |
| Cash consideration received | 809,392 |
| Less: bank balances and cash disposed of | (25,100) |
| | 784,292 |

The impact of mining business on the Group's results and cash flows in the prior period is disclosed in note 10.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

## 32. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of equity attributable to owners of the Company, comprising issued share capital, reserves and retained earnings.

The directors of the Company review the capital structure regularly. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors of the Company, the Group will balance its overall capital structure through the payment of dividends, new share issues, share buy-backs or raising of new debt.

## 33. FINANCIAL INSTRUMENTS

### 33a. Categories of financial instruments

| | **2017 USD'000** | 2016 USD'000 |
|---|---|---|
| **Financial assets** | | |
| Financial assets classified as loans and receivables (including cash and cash equivalents) | **812,143** | 876,215 |
| Available-for-sale financial assets | **379,728** | 303,982 |
| Held for trading investments | **78,719** | 72,391 |
| **Financial liabilities** | | |
| Amortised cost | **15,160** | 11,814 |

### 33b. Financial risk management objectives and policies

The Group's major financial instruments include held for trading investments, accounts and other receivables and deposits, available-for-sale investments, loans receivable, bank trust accounts balances, bank balances and cash and accounts and other payables. Details of these financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

***Market risk***

*(i) Interest rate risk*

The Group is exposed to fair value interest rate risk in relation to fixed-rate Senior Notes and cash flow interest rate risk in relation to bank balances and variable-rate Senior Notes.

The interest income is derived from the Group's current and fixed deposits that carry interest at the respective banking deposit rate of the banks located in Hong Kong. The Group's bank deposits (set out in note 25) carried at prevailing market rates.

The Group currently does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

## 33. FINANCIAL INSTRUMENTS (continued)

### 33b. Financial risk management objectives and policies (continued)

***Market risk*** (continued)

*(i)* *Interest rate risk* (continued)

*Sensitivity analysis*

The sensitivity analysis below have been determined based on the exposure to interest rates for bank balances, and variable-rate Senior Notes. The analysis is prepared assuming the financial instruments outstanding at the end of the period were outstanding for the whole year. A 50 basis points (2016: 50 basis points) increase or decrease is used for bank balances and variable-rate Senior Notes and when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates respectively.

If interest rates had been 50 basis points (2016: 50 basis points) for bank balances and variable-rate Senior Notes higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2017 would increase/decrease by USD4,423,000 (2016: increase/decrease by USD4,224,000). This is mainly attributable to the Group's exposure to interest rates on its bank balances and variable-rate Senior Notes.

*(ii)* *Other price risk*

The Group is exposed to securities price risk through the Group's held for trading investments, variable-rate Perpetual Notes, fixed-rate and variable-rate Senior Notes and Unlisted Perpetual Securities, managed investment funds and other security investments which are measured at fair value. Management manages this exposure by maintaining a portfolio of investments with different risks. The Group's listed equity price risk is mainly concentrated in equity instruments quoted on the Hong Kong Stock Exchange for which quoted market bid price is available except for the shares which was suspended from trading, the fair value was estimated by Finnerty model to derive a discount for lack of marketability. The model uses unobservable data inputs which include stock price, volatility, dividend yield, the expected end of suspension period and the liquidity discount rate. The fair value of variable-rate Perpetual Notes and fixed-rate and variable-rate Senior Notes which is stated at fair value with reference to quoted price from the financial institutions supported by observable inputs. The fair value of Unlisted Perpetual Securities which is stated at fair value is derived from valuation techniques using the discounted cash flow model that include inputs for the assets or liabilities that are not based on observable market data (unobservable inputs). The fair value of unlisted managed investment funds for the real estate properties is determined by the market transaction prices of similar properties of the relevant locations and for the underlying financial products are valued at quoted market prices in the open market or observable prices of comparable investments, or measured using valuation techniques in which significant input is based on observable market data. The fair value of other securities investments which is stated at fair value is determined by the financial institution using valuation techniques including earnings multiples (based on the budget earnings or historical earnings of the issuer and earnings multiples of comparable listed companies) and discounted cash flows.

*Sensitivity analysis*

The sensitivity analysis below has been determined based on the exposure to securities price risks at the reporting date.

If the prices of the respective securities had been 10% (2016: 10%) higher/lower:

- the Group's post-tax profit for the year ended 31 December 2017 would increase/decrease by USD6,573,000 (2016: USD6,045,000) as a result of the changes in fair value of held for trading investments and the Group's investment revaluation reserve as at 31 December 2017 would be increase/decrease by USD25,137,000 (2016: USD26,036,000) as a result of the changes in fair value of variable-rate Perpetual Notes, fixed-rate and variable-rate Senior Notes, Unlisted Perpetual Securities, managed investment funds and other security investment which is stated at fair value.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

## 33. FINANCIAL INSTRUMENTS (continued)

### 33b. Financial risk management objectives and policies (continued)

***Market risk*** (continued)

*(iii) Currency risk*

Most of the Group's financial assets and liabilities are denominated in USD and HKD which are the same as the functional currency of the respective Group entities. In addition, the Group has certain financial assets and financial liabilities denominated in Indonesian Rupiah ("IDR"), Australian Dollar ("AUD") and Chinese Yuan Renminbi ("CNY") and Euro ("EUR").

In the opinion of the directors, USD are stable with HKD under the Linked Exchange Rate System, and accordingly, the Group does not have any significant foreign exchange risk in respect of transactions or balances as denominated in HKD. Accordingly, no sensitivity analysis is performed on HKD.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follow:

| | **2017 USD'000** | 2016 USD'000 |
|---|---|---|
| **Assets** | | |
| AUD | **4** | 3 |
| IDR | **1,691** | 13,304 |
| CNY | **22,792** | 18,031 |
| EUR | **3,769** | 987 |
| **Liabilities** | | |
| CNY | **17** | – |

The Group currently does not have a foreign exchange hedging policy. However, the management of the Group monitors foreign exchange exposure and will consider hedging significant foreign exchange exposure should the need arises.

*Sensitivity analysis*

The Group's foreign currency risk is mainly concentrated on the fluctuation among AUD, IDR, CNY and EUR against USD. The following table details the Group's sensitivity to a 7% (2016: 7%) increase and decrease in the USD against the foreign currencies. 7% (2016: 7%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. As at 31 December 2017, a positive/(negative) number indicates and increase/decrease in profit before taxation for the year where the USD strengthens against the relevant foreign currencies. For a 7% (2016: 7%) weakening of the USD against the relevant foreign currencies, there would be an equal and opposite impact on profit before taxation.

| | **Profit before taxation** | |
|---|---|---|
| | **2017 USD'000** | 2016 USD'000 |
| AUD | **–** | – |
| IDR | **(118)** | (931) |
| CNY | **(1,594)** | (1,262) |
| EUR | **(264)** | (69) |
| | **(1,976)** | (2,262) |

## 33. FINANCIAL INSTRUMENTS (continued)

### 33b. Financial risk management objectives and policies (continued)

***Credit risk***

The Group's maximum exposure to credit risk in the event of the counterparties' failure to discharge their obligations in relation to each class of recognised financial assets excluding equity investments are the amounts stated in the consolidated statement of financial position. In order to minimise the credit risk, management of the Group has determined credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group has concentrations of credit risk comprising deposits placed at a financial institution for the Group's bank balances of USD417,380,000 (2016: USD508,350,000), which represents approximately 54% (2016: 62%) of the Group's total bank balances and cash. For the year ended 31 December 2016, Senior Notes of USD33,523,000 were issued by a single counterparty, Senior Notes of USD35,169,000 were issued by another single counterparty and Unlisted Perpetual Securities of USD30,000,000 were issued by another single counterparty. Management considered the credit risk on such balances held at the financial institution and the credit risk are limited because the financial institution is with high credit rating and the single counterparties which have its shares listed on the Hong Kong Stock Exchange are in good financial position.

***Liquidity risk***

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the operations of the Group and to maintain a balance between continuity of funding and flexibility through the use of borrowings.

The following tables detail the remaining contractual maturity for the 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.

***Liquidity tables***

| | On demand or less than 1 month USD'000 | 1–3 months USD'000 | 3 months to 1 year USD'000 | More than 1 year USD'000 | Total undiscounted cash flow USD'000 | Carrying amount USD'000 |
|---|---|---|---|---|---|---|
| **At 31 December 2017** | | | | | | |
| **Non-derivative financial liabilities** | | | | | | |
| Accounts and other payables | **15,160** | **–** | **–** | **–** | **15,160** | **15,160** |
| **At 31 December 2016** | | | | | | |
| **Non-derivative financial liabilities** | | | | | | |
| Accounts and other payables | 11,814 | – | – | – | 11,814 | 11,814 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

## 33. FINANCIAL INSTRUMENTS (continued)

### 33c. Fair value measurements of financial instruments

***The fair value of financial assets are measured at fair value on a recurring basis:***

- the fair value of held for trading investments with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market bid prices; except for the shares which was suspended from trading, the fair value was estimated by Finnerty model to derive a discount for lack of marketability, key inputs are detailed in note 22;
- the fair value of Unlisted Perpetual Securities in available-for-sale investments is determined in accordance with the discounted cash flow model, the valuation technique and key inputs are detailed in note 16;
- the fair value of listed debt securities in available-for-sale investments is determined based on the quoted price provided by the counterparty financial institution;
- the fair value of unlisted managed investment funds and unlisted other security investment is based on fair value of quoted prices in the open market or observable prices or using valuation techniques, more details are stated in note 16; and
- the fair value of derivative financial asset in derivative component in convertible bond is determined in accordance with Trinomial Option Pricing Model, the valuation technique and key inputs are detailed in note 23.

***The fair value of financial assets and financial liabilities are not measured at fair value on a recurring basis:***

- the fair value of other financial assets and financial liabilities (excluding held for trading investments and available-for-sale investments measured at fair value) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

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

## 33. FINANCIAL INSTRUMENTS (continued)

### 33c. Fair value measurements of financial instruments (continued)

***Fair value measurements recognised in the consolidated statement of financial position***

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the input to the fair value measurements are observable and the significance of the inputs to the fair value measurement:

| | | Level 1<br>USD'000 | Level 2<br>USD'000 | Level 3<br>USD'000 | Total<br>USD'000 |
|---|---|---|---|---|---|
| **At 31 December 2017** | | | | | |
| **Financial assets** | | | | | |
| Listed debt securities | | | | | |
| (classified as available-for-sale investments) | (Note a) | **–** | **203,266** | **–** | **203,266** |
| Unlisted managed investment funds | | | | | |
| (classified as available-for-sale investments) | (Note b) | **–** | **48,107** | **–** | **48,107** |
| Unlisted other security investment | | | | | |
| (classified as available-for-sale investments) | (Note b) | **–** | **–** | **–** | **–** |
| Held for trading investments | (Notes d, f) | **66,109** | **–** | **12,610** | **78,719** |
| | | **66,109** | **251,373** | **12,610** | **330,092** |
| **At 31 December 2016** | | | | | |
| **Financial assets** | | | | | |
| Listed debt securities | | | | | |
| (classified as available-for-sale investments) | (Notes a, e) | – | 176,431 | – | 176,431 |
| Unlisted managed investment funds | | | | | |
| (classified as available-for-sale investments) | (Note b) | – | 47,977 | – | 47,977 |
| Unlisted other security investment | | | | | |
| (classified as available-for-sale investments) | (Note b) | – | – | 5,949 | 5,949 |
| Unlisted perpetual securities | | | | | |
| (classified as available-for-sale investments) | (Note c) | – | – | 30,000 | 30,000 |
| Held for trading investments | (Note d) | 72,391 | – | – | 72,391 |
| | | 72,391 | 224,408 | 35,949 | 332,748 |

Notes:

(a) The fair value of listed debt securities included in available-for-sale investments are determined based on the quoted price from the financial institutions supported by observable inputs.

(b) The fair value of unlisted managed investment funds and unlisted other security investment included in available-for-sale investments is based on fair value of quoted prices in the open market or quoted price from financial institutions or observable prices or using valuation techniques, more details are stated in note 16. The lower the discount rate, the higher the fair value.

(c) The fair value of unlisted perpetual securities included in available-for-sale investments is determined in accordance with a discounted cash flow model. The key inputs include those can be observed in the market in addition to unobservable inputs such as company specific financial information. The fair value of the available-for-sale investments is measured with the assumptions including discount rate and expected life. The lower the discount rate or shorter the expected life, the higher the fair value.

## 33. FINANCIAL INSTRUMENTS (continued)

### 33c. Fair value measurements of financial instruments (continued)

***Fair value measurements recognised in the consolidated statement of financial position*** (continued)

Notes: (continued)

(d) The fair value of held for trading investments with standard terms and conditions and traded in active liquid markets are determined with reference to quoted market bid prices; except for the shares which was suspended from trading, the fair value was estimated by Finnerty model to derive discount for lack of marketability, key inputs are detailed in note 22. The lower the liquidity discount rate or shorter expected suspension period, the higher the fair value.

(e) The Group invested in two listed debt securities that are classified as an available-for-sale investment and are measured at fair value at each reporting date. The fair value of the investments as at 31 December 2016 amount to USD59,168,000. During the year ended 31 December 2016, in view of availability of the market transaction information, the two listed debt securities are transferred from Level 3 to Level 2 of the fair value hierarchy.

(f) During the year ended 31 December 2017, the held for trading investment which was suspended from trading is transferred from Level 1 to Level 3 fair value hierarchy.

***Reconciliation of Level 3 fair value measurements of financial asset***

| | USD'000 |
|---|---|
| At 1 January 2016 | 94,641 |
| Reclassification to Level 2 | (57,958) |
| Disposals | (538) |
| Gain/(loss) recognised in | |
| – profit or loss | 2,494 |
| – other comprehensive income (Note) | (2,690) |
| At 31 December 2016 and 1 January 2017 | 35,949 |
| Purchases | 933 |
| Disposals | (36,162) |
| Transfer from Level 1 to Level 3 | 12,610 |
| Gain/(loss) recognised in | |
| – profit or loss | 529 |
| – other comprehensive income (Note) | (1,249) |
| At 31 December 2017 | 12,610 |

Note: The gain or loss included in other comprehensive income for the year related to the debt investments held at the end of the reporting period and are reported as changes of "investment revaluation reserve".

## 33. FINANCIAL INSTRUMENTS (continued)

### 33d. Financial assets and financial liabilities offsetting

The disclosures set out in the tables below include financial assets and financial liabilities that are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments that are either:

- offset in the Group's consolidated statement of financial position; or
- not offset in the Group's consolidated statement of financial position as the offsetting criteria are not met.

Under the agreement of continuous net settlement made between the Group and Hong Kong Securities Clearing Company Limited ("HKSCC") and a broker, the Group has a legally enforceable right to set off the money obligations receivable and payable with HKSCC and a broker on the same settlement date and the Group intends to settle on a net basis.

In addition, the Group has a legally enforceable right to set off the accounts receivable and payable with its same retail customers in the Group's brokerage business ("brokerage clients") that are due to be settled on the same date with reference to the settlement method set by the HKSCC and the Group intends to settle these balances on a net basis.

Except for balances which are due to be settled on the same date which are being offset, amounts due from/to HKSCC, a broker and brokerage clients that are not to be settled on the same date, financial collateral including cash and securities received by the Group and deposits placed with HKSCC and a broker do not meet the criteria for offsetting in the consolidated statement of financial position since the right of set-off of the recognised amounts is only enforceable following an event of default.

| | Gross amounts of recognised financial assets after impairment USD'000 | Gross amounts of recognised financial liabilities set off in the consolidated statement of financial position USD'000 | Net amounts of financial assets presented in the consolidated statement of financial position USD'000 | Related amounts not offset in the consolidated statement of financial position: Financial instruments USD'000 | Related amounts not offset in the consolidated statement of financial position: Collateral received USD'000 | Net amount USD'000 |
|---|---|---|---|---|---|---|
| **As at 31 December 2017** | | | | | | |
| Accounts receivable from the business of dealing in securities | **11,056** | **(389)** | **10,667** | **–** | **(10,617)** | **50** |
| **As at 31 December 2016** | | | | | | |
| Accounts receivable from the business of dealing in securities | 22,193 | (2,641) | 19,552 | – | (19,468) | 84 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

## 33. FINANCIAL INSTRUMENTS (continued)

### 33d. Financial assets and financial liabilities offsetting (continued)

| | Gross amounts of recognised financial liabilities USD'000 | Gross amounts of recognised financial assets set off in the consolidated statement of financial position USD'000 | Net amounts of financial liabilities presented in the consolidated statement of financial position USD'000 | Related amounts not offset in the consolidated statement of financial position: Financial instruments USD'000 | Related amounts not offset in the consolidated statement of financial position: Collateral received USD'000 | Net amount USD'000 |
|---|---|---|---|---|---|---|
| **As at 31 December 2017** | | | | | | |
| Accounts payable from the business of dealing in securities | **1,730** | **(389)** | **1,341** | **–** | **–** | **1,341** |
| **As at 31 December 2016** | | | | | | |
| Accounts payable from the business of dealing in securities | 3,155 | (2,641) | 514 | – | – | 514 |

The gross amounts of the recognised financial assets and financial liabilities and their net amounts as presented in the Group's consolidated statement of financial position, both of which have been disclosed in the above tables, are measured as accounts receivable from, or payable to cash and custodian clients, margin clients and clearing house at amortised cost.

## 34. OPERATING LEASES

### The Group as lessee

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:

| | 2017 USD'000 | 2016 USD'000 |
|---|---|---|
| Within one year | **588** | 717 |
| In the second to fifth year inclusive | **492** | 1,095 |
| | **1,080** | 1,812 |

Operating lease payments represented rentals payables by the Group for certain of its office premises and warehouse. Leases are negotiated for terms ranging from two to three years.

### The Group as lessor

During the year ended 31 December 2017, the Group had property rental income of approximately USD1,585,000 (2016: USD1,925,000).

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

| | 2017 USD'000 | 2016 USD'000 |
|---|---|---|
| Within one year | **2,313** | 833 |
| In the second to fifth year inclusive | **2,719** | 1,499 |
| | **5,032** | 2,332 |

## 35. OTHER COMMITMENTS

At the end of the reporting period, the Group had the following other commitments:

| | 2017<br>USD'000 | 2016<br>USD'000 |
|---|---|---|
| Other commitments contracted for but not provided for in the consolidated financial statements in respect of capital contribution in other security investments which are recognised as available-for-sale investments | **47,523** | 29,140 |

## 36. RELATED PARTY DISCLOSURES

### Key management personnel compensation

| | 2017<br>USD'000 | 2016<br>USD'000 |
|---|---|---|
| Short-term benefits | **1,287** | 2,424 |
| Post-employment benefits | **6** | 11 |
| | **1,293** | 2,435 |

## 37. RETIREMENT BENEFITS SCHEMES

The Group participates in a Mandatory Provident Fund Scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for all its employees in Hong Kong. The assets of the MPF Scheme are held separately from those of the Group, in funds under the control of trustees. Under the rules of MPF Scheme, the employer and its employees are each required to make contributions to MPF Scheme at rates specified in the rules. The only obligation of the Group with respect to MPF Scheme is to make the required contributions under the MPF Scheme. No forfeited contributions are available to reduce the contributions payable in future years.

The employees in a Group's former subsidiary in Indonesia are members of the state-managed retirement benefit scheme (the "Indonesia State-managed Retirement Benefit Scheme") operated by the Indonesian government. The former subsidiary is required to contribute a certain percentage of payroll costs to the retirement benefits. The subsidiary was disposed of during the year ended 31 December 2016 as set out in note 31.

During the year ended 31 December 2017, the total amount contributed by the Group to the MPF Scheme charged to the consolidated statement of profit or loss was USD81,000 (2016: USD63,000). The Group also contributed to the Indonesia State-managed Retirement Benefit Scheme operated by the Indonesian government. For the year ended 31 December 2016, USD188,000 (2017: nil) charged to the consolidated statement of profit or loss.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

## 38. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flow will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

| | Other borrowings USD'000 |
|---|---|
| At 1 January 2017 | – |
| Net financing cash outflows | (128) |
| Interest expenses | 128 |
| At 31 December 2017 | – |

## 39. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

| | NOTE | **2017 USD'000** | 2016 USD'000 |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | | **53** | 41 |
| Investments in subsidiaries | | **307,000** | 307,000 |
| Other receivable | | **1,691** | 13,304 |
| Amounts due from subsidiaries | | **–** | 32,935 |
| | | **308,744** | 353,280 |
| CURRENT ASSETS | | | |
| Other receivables | | **306** | 413 |
| Amounts due from subsidiaries | | **994,419** | 1,153,794 |
| Bank balances and cash | | **48,064** | 125,428 |
| | | **1,042,789** | 1,279,635 |
| CURRENT LIABILITIES | | | |
| Other payables | | **1,112** | 1,399 |
| Amounts due to subsidiaries | | **17,085** | 316,812 |
| | | **18,197** | 318,211 |
| NET CURRENT ASSETS | | **1,024,592** | 961,424 |
| | | **1,333,336** | 1,314,704 |
| CAPITAL AND RESERVES | | | |
| Share capital | | **34,871** | 34,871 |
| Reserves | a | **1,298,465** | 1,279,833 |
| Total equity | | **1,333,336** | 1,314,704 |

## 39. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Note:

**(a) Reserves**

| | Share premium USD'000 | Capital redemption reserve USD'000 | Contribution surplus USD'000 | Share options reserve USD'000 | Exchange reserve USD'000 | Retained earnings USD'000 | Total USD'000 |
|---|---|---|---|---|---|---|---|
| At 1 January 2016 | 1,014,800 | 212 | 23,618 | 3,919 | 1,419 | 22,641 | 1,066,609 |
| Profit for the year | – | – | – | – | – | 220,209 | 220,209 |
| Exchange realignment | – | – | – | – | (304) | – | (304) |
| Total comprehensive (expense)/income for the year | – | – | – | – | (304) | 220,209 | 219,905 |
| Dividends recognised as distribution | 8,383 | – | – | – | – | (15,064) | (6,681) |
| Vested share options lapsed | – | – | – | (3,633) | – | 3,633 | – |
| At 31 December 2016 and 1 January 2017 | 1,023,183 | 212 | 23,618 | 286 | 1,115 | 231,419 | 1,279,833 |
| Profit for the year | – | – | – | – | – | 26,484 | 26,484 |
| Exchange realignment | – | – | – | – | (7,852) | – | (7,852) |
| Total comprehensive (expense)/income for the year | – | – | – | – | (7,852) | 26,484 | 18,632 |
| Vested share options lapsed | – | – | – | (286) | – | 286 | – |
| At 31 December 2017 | 1,023,183 | 212 | 23,618 | – | (6,737) | 258,189 | 1,298,465 |

The contributed surplus of the Company includes (i) the difference between the consolidated shareholders' funds of the subsidiaries at the date at which they were acquired by the Company, and the nominal amount of the Company's shares issued for the acquisition at the time of the group reorganisation prior to the listing of the Company's shares in 1994; (ii) the surplus arising from the group reorganisation in 1998; and (iii) the surplus arising from capital reorganisation in June 2009.

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

(a) it is, or would after the payment be, unable to pay its liabilities as they become due; or
(b) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

The reserve available for distribution to shareholders at 31 December 2017 is USD281,807,000 (2016: USD255,037,000).

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2017

## 40. PRINCIPAL SUBSIDIARIES

### General information of subsidiaries

Particulars of the principal subsidiaries at 31 December 2017 and 31 December 2016 are as follows:

| Name of subsidiary | Place of incorporation/ operation | Class of shares/equity held | Nominal value of issued and fully paid share capital/registered capital | Proportion of ownership interest held by the Company | | | | Proportion of voting power held by the Company | | | | Principal activities |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | Directly | | Indirectly | | Directly | | Indirectly | | |
| | | | | 31.12. 2017 % | 31.12. 2016 % | 31.12.2017 % | 31.12.2016 % | 31.12.2017 % | 31.12.2016 % | 31.12.2017 % | 31.12.2016 % | |
| ABNER HOLDINGS LIMITED | British Virgin Islands | Ordinary | USD1 | – | – | 100 | 100 | – | – | 100 | 100 | Real property |
| ABUNDANT IDEA LIMITED | British Virgin Islands | Ordinary | USD1 | – | – | 100 | 100 | – | – | 100 | 100 | Real property |
| ACE EMPEROR LIMITED | British Virgin Islands | Ordinary | USD1 | – | – | 100 | 100 | – | – | 100 | 100 | Real property |
| CLASSIC IDEA INVESTMENTS LIMITED | British Virgin Islands | Ordinary | USD1 | – | – | 100 | – | – | – | 100 | – | Fund investment |
| Enhanced Finance Limited | Hong Kong | Ordinary | HKD19,300,000 | – | – | 75 | 75 | – | – | 75 | 75 | Money lending |
| Enhanced Securities Limited | Hong Kong | Ordinary | HKD150,000,000 | – | – | 75 | 75 | – | – | 75 | 75 | Dealing in securities, provision of securities margin financing and provision of advising on corporate finance |
| G-Financial Services Group Ltd. | Cayman Islands | Ordinary | USD200 | – | – | 100 | 100 | – | – | 100 | 100 | Securities investment |
| GLOBAL ACCESS DEVELOPMENT LIMITED | Hong Kong | Ordinary | HKD1 | – | – | 100 | 100 | – | – | 100 | 100 | Money lending |
| PRIME CLASSIC HOLDINGS LIMITED | British Virgin Islands | Ordinary | USD1 | – | – | 100 | 100 | – | – | 100 | 100 | Securities investment |
| RAVI GLOBAL LIMITED | British Virgin Islands | Ordinary | USD1 | – | – | 100 | 100 | – | – | 100 | 100 | Securities investment |
| TOP CONCEPT GLOBAL LIMITED | British Virgin Islands | Ordinary | USD1 | – | – | 100 | – | – | – | 100 | – | Fund investment |
| WIN GENIUS INVESTMENTS LIMITED | Hong Kong | Ordinary | HKD1 | – | – | 100 | 100 | – | – | 100 | 100 | Securities investment |

The above table lists the subsidiaries of the Group which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries of the Group had any debt securities outstanding at the end of the reporting period or at any time during the year.

The directors of the Company are of the option that none of the Group's subsidiaries that have non-controlling interests are material to the consolidated financial statements as a whole, therefore, the financial information in respect of those subsidiaries that have non-controlling interests are not presented.

# FIVE-YEAR FINANCIAL SUMMARY

## (a) RESULTS

| | (Six Months) 1.7.2013 to 31.12.2013 USD'000 | (Twelve Months) 1.1.2014 to 31.12.2014 USD'000 | (Twelve Months) 1.1.2015 to 31.12.2015 USD'000 | (Twelve Months) 1.1.2016 to 31.12.2016 USD'000 | **(Twelve Months) 1.1.2017 to 31.12.2017 USD'000** |
|---|---|---|---|---|---|
| Revenue | | | | | |
| – Continuing operations | – | 3,462 | 11,613 | 29,985 | **30,123** |
| – Discontinued operation | 212,505 | 384,115 | 391,468 | 78,270 | **–** |
| | 212,505 | 387,577 | 403,081 | 108,255 | **30,123** |
| (Loss)/profit before taxation | (4,117) | 8,601 | 5,104 | 10,235 | **32,536** |
| Taxation | – | – | – | 3 | **(374)** |
| Profit for the period/year from discontinued operation | 43,222 | 55,866 | 56,204 | 118,566 | **–** |
| Profit for the period/year | 39,105 | 64,467 | 61,308 | 128,804 | **32,162** |
| Profit for the period/year attributable to: | | | | | |
| Owners of the Company | 38,320 | 62,737 | 59,423 | 127,938 | **31,249** |
| Non-controlling interests | 785 | 1,730 | 1,885 | 866 | **913** |
| | 39,105 | 64,467 | 61,308 | 128,804 | **32,162** |

## (b) ASSETS AND LIABILITIES

**As at 31 December**

| | 2013 USD'000 | 2014 USD'000 | 2015 USD'000 | 2016 USD'000 | **2017 USD'000** |
|---|---|---|---|---|---|
| Total assets | 1,232,780 | 1,297,859 | 1,370,174 | 1,374,871 | **1,405,591** |
| Total liabilities | (95,845) | (101,181) | (118,833) | (13,240) | **(15,933)** |
| | 1,136,935 | 1,196,678 | 1,251,341 | 1,361,631 | **1,389,658** |
| Equity attributable to owners of the Company | 1,117,049 | 1,175,366 | 1,228,240 | 1,356,462 | **1,383,618** |
| Non-controlling interests | 19,886 | 21,312 | 23,101 | 5,169 | **6,040** |
| | 1,136,935 | 1,196,678 | 1,251,341 | 1,361,631 | **1,389,658** |

**G-Resources Group Limited**
*(Incorporated in Bermuda with limited liability)*
Stock Code: 1051

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