The Hong Kong Building and Loan Agency Limited

香港建屋貸款有限公司

(Stock Code: 145)

2016 Annual Report

CORPORATION INFORMATION

BOARD OF DIRECTORS

Executive Directors
Mr. So Yuen Chun
Dr. Li Ai Guo
Mr. Chong Kok Leong
Mr. Zhuang Miaozhong

Non-executive Directors
Mr. Lam Kwok Hing, Wilfred
Mr. Huang Lizhi

Independent Non-executive Directors
Ms. Yuen Wai Man
Mr. Yeung Wai Hung, Peter
Mrs. Chu Ho Miu Hing
Mr. Choy Hiu Fai, Eric

AUDIT COMMITTEE

Ms. Yuen Wai Man *(Chairman)*
Mr. Lam Kwok Hing, Wilfred
Mr. Yeung Wai Hung, Peter

NOMINATION COMMITTEE

Ms. Yuen Wai Man *(Chairman)*
Mr. Lam Kwok Hing, Wilfred
Mr. Yeung Wai Hung, Peter
Mrs. Chu Ho Miu Hing

REMUNERATION COMMITTEE

Ms. Yuen Wai Man *(Chairman)*
Mr. Lam Kwok Hing, Wilfred
Mr. Yeung Wai Hung, Peter
Mrs. Chu Ho Miu Hing

AUDITORS

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

PRINCIPAL BANKERS

China CITIC Bank International Limited
Industrial and Commercial Bank of China
Shanghai Pudong Development Bank
The Hongkong and Shanghai Banking Corporation Limited

LEGAL ADVISOR

Troutman Sanders
WT Law Offices

SHARE REGISTRAR

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

REGISTERED OFFICE

Unit F, 7/F
China Overseas Building
139 Hennessy Road
Wanchai
Hong Kong

STOCK CODE

145

WEBSITE

http://www.hkbla.com.hk

COMPANY SECRETARY

Mr. So Yuen Chun

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MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Hong Kong Building and Loan Agency Limited (the "**Company**"), together with its subsidiaries (collectively, the "**Group**"), are principally engaged in treasury investments, provision of loan financing and design and provision of energy saving solutions.

During the year ended 31 December 2016, the Group recorded a revenue of approximately HK$22,080,000, representing an increase of approximately 31.6% as compared with HK$16,776,000 for the last year. A loss for the year attributable to the owners of the Company of approximately HK$201,928,000 (2015: loss of approximately HK$815,428,000) was recorded, which is mainly attributable to (i) an impairment of goodwill of approximately HK$110,381,000 (2015: HK$666,660,000); (ii) the amortization of the intangible assets of the Company of approximately HK$54,484,000 (2015: HK$54,484,000); and (iii) finance costs of approximately HK$81,940,000 (2015: HK$87,470,000) due to interest amortisation of convertible bonds and promissory notes. The loss for the year attributable to the owners of the Company was partly offset by an one-off gain of approximately HK$43,019,000 on disposal of subsidiaries (2015: loss of approximately HK$80,531,000 on disposal of a subsidiary).

With respect to the segment of design and provision of energy saving solutions ("**Energy Saving Business**"), a segment loss of approximately HK$166,767,000 was recorded for the year ended 31 December 2016 (2015: approximately HK$752,122,000). The segment loss was mainly attributable to the impairment of goodwill of approximately HK$110,381,000 (2015: HK$666,660,000). The impairment of goodwill represents the impairment of goodwill arising from the acquisition of Weldtech Technology Co. Limited and its subsidiary, Haoxin Technology (Shanghai) Company Limited (濠信節能科技(上海)有限公司) (collectively, the "**Weldtech Group**") (the "**Acquisition**") in 2014. The Company engaged an independent qualified valuer to assess the value in use of Weldtech Group as at 31 December 2016 and produced the valuation report, which was used to determine the fore-mentioned impairment amount, after taking into account (i) the economic development of the PRC; (ii) the development of energy saving industry; and (iii) the expected business flow and development plan of the Energy Saving Business during the valuation process.

Of the total revenue, approximately HK$4,000 (2015: approximately HK$940,000) was generated from the Group's loan financing business which contributed a segment gain of approximately HK$4,000 (2015: loss of approximately HK$1,162,000). The decrease in revenue from loan financing segment was due to the disposal of subsidiaries during the year. Due to the volatile market conditions in 2016, the Group was unable to identify new loan projects commanding the target risk and return profile to replenish the loan portfolio of the Group during the year.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW *(continued)*

With respect to the segment of treasury investments, a segment loss of approximately HK$2,181,000 was recorded for the year ended 31 December 2016, as compared to the segment profit of approximately HK$887,000 in last year. The loss recorded for the treasury investments is mainly attributable to the decrease in the share prices of the equity securities held for investments.

TOTAL ASSETS AND FOREIGN EXCHANGE EXPOSURE

As at 31 December 2016, the total assets decreased to approximately HK$1,326,885,000 (2015: approximately HK$1,554,198,000). The decrease was mainly attributable to the impairment of goodwill of approximately HK$110,381,000 (2015: HK$666,660,000) and the disposal of subsidiaries during the year. The Group's assets were mainly denominated in Hong Kong Dollars, Renminbi and United States Dollars. As the Hong Kong Dollar is pegged to the United States Dollar, the Group does not foresee any material exchange risk in this respect. However, the Group is subject to certain foreign exchange impacts caused by the depreciation of Renminbi. The Group has not entered into any significant foreign exchange contract. The management closely monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

As at 31 December 2015, the Group held financial assets at fair value through profit or loss amounting to approximately HK$12,934,000. The financial assets at fair value through profit or loss represent held-for-trading investments in equity securities listed in Hong Kong. During the year ended 31 December 2016, the financial assets at fair value through profit or loss was disposed of through disposal of a subsidiary.

As at 31 December 2016, the Group held intangible assets amounting to approximately HK$751,421,000 (2015: approximately HK$805,905,000). The intangible assets represent 7 patents related to the "Ultra Performance Plant Control System" ("**UPPC System**") used by the energy saving solutions business.

As at 31 December 2016, the Group held finance lease receivables amounting to approximately HK$23,288,000 (2015: approximately HK$24,446,000).

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2016, the Group's cash and bank balances amounted to approximately HK$34,360,000 (2015: approximately HK$79,474,000), and it had outstanding convertible bonds of approximately HK$466,056,000 (2015: approximately HK$424,494,000) and promissory notes of approximately HK$95,660,000 (2015: approximately HK$133,126,000). The net assets and the net current assets of the Group amounted to approximately HK$554,303,000 (2015: approximately HK$757,301,000) and approximately HK$3,664,000 (2015: approximately HK$39,013,000), respectively.

The gearing ratio of the Group as at 31 December 2016, which is calculated as net debts (as calculated by total borrowings less cash and cash equivalents) divided by total capital, was 0.49 (2015: 0.39).

CAPITAL STRUCTURE

As at 31 December 2016, the Company's number of issued ordinary shares was 1,922,086,816 ("**Share(s)**") (2015: 1,922,086,816 Shares).

As at 31 December 2016, the Company had principal amount of HK$305,545,700 convertible bond A (the "**CB A**") outstanding which could be converted into 381,932,124 Shares at the conversion price of HK$0.80 per share. During the year ended 31 December 2016, no new Shares were issued from the conversion of CB A.

As at 31 December 2016, the Company had principal amount of HK$639,612,430 convertible bond B (the "**CB B**") outstanding which could be converted into 799,515,538 Shares at the conversion price of HK$0.80 per share. During the year ended 31 December 2016, no new Shares were issued from the conversion of CB B.

As at 31 December 2016, the Company had principal amount of HK$33,000,000 convertible bonds 2015 (the "**CB 2015**") outstanding which could be converted into 37,078,651 Shares at the conversion price of HK$0.89 per share. During the year ended 31 December 2016, no new Shares were issued from the conversion of such convertible bonds. HK$27,000,000 convertible bonds were redeemed.

Subsequent to 31 December 2016, the Company has completed placing of 384,416,000 new Shares on 20 January 2017 at the placing price of HK$0.36 per share. For further details, please refer to "fund raising activities" section of this report.

MANAGEMENT DISCUSSION AND ANALYSIS

CHARGE ON GROUP ASSETS AND CONTINGENT LIABILITIES

As at 31 December 2015, the Group pledged bank deposits of approximately HK$236,000 as the security deposit for the warranty fund of sale of goods. As at 31 December 2016, the Group did not pledge any bank deposits.

As at 31 December 2016, the Group did not have material contingent liabilities (2015: Nil).

CAPITAL COMMITMENT

As at 31 December 2016, the Group had capital commitments, which were contracted but not provided for, in respect of construction contract of approximately HK$52,000 (2015: approximately HK$5,213,000).

DISPOSAL OF SUBSIDIARIES

During the year ended 31 December 2016, the Group entered into sale and purchase agreements to dispose of the entire issued share capital of The Building and Loan Agency (Asia) Limited (the "**BLA (Asia)**") and certain subsidiaries to independent third parties for a total cash consideration of HK$1,390,000 (the "**Disposal**"). The Disposal was completed during the first half of the 2016. The Group recorded a gain of approximately HK$43,019,000 as a result of the Disposal.

Save as disclosed above, there was no material disposal of subsidiaries, associates and joint ventures for the year ended 31 December 2016.

MATERIAL INVESTMENTS

The Group did not make any material acquisition and investment during the year ended 31 December 2016.

FUND RAISING ACTIVITIES

On 29 December 2016, the Company entered into a placing agreement ("**Placing Agreement**") with RHB Securities Hong Kong Limited ("**RHB**") as the placing agent pursuant to which the Company agreed to place through RHB, on a best-effort basis, an aggregate of up to 384,416,000 new shares at the placing price of HK$0.36 per placing share.

On 11 January 2017, the Company entered into a supplemental agreement ("**Supplemental Agreement**") with RHB pursuant to which the Company and RHB agreed to amend the Placing Agreement to remove the requirement that each placee shall not become a substantial shareholder of the Company as a result of the placing.

MANAGEMENT DISCUSSION AND ANALYSIS

FUND RAISING ACTIVITIES *(continued)*

Completion of the placing took place on 20 January 2017 and a total of 384,416,000 new Shares have been successfully placed to a placee who and whose ultimate beneficial owners were third parties independent of and not connected with the Company and its connected persons (as defined under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") (the "**Listing Rules**")) immediately prior to the completion of the placing.

The gross proceeds from the placing were approximately HK$138,400,000 and the net proceeds after deducting all relevant expenses were approximately HK$133,900,000, which the Company intends to utilize for (i) general working capital of the Group, (ii) repayment of existing indebtedness, and/or (iii) possible investments in the future. The utilization of the net proceeds from the placing was summarised as follows:

	Net proceeds from the placing	**Utilised**	**Balance as at 31 March 2017**
	HK$'000	*HK$'000*	*HK$'000*
General working capital of the Group	48,920	(23,878)	25,042
Repayment of existing indebtedness	34,980	–	34,980
Possible investments	50,000	–	50,000
	133,900	(23,878)	110,022

For further details, please refer to the announcements of the Company dated 29 December 2016, 11 January 2017 and 20 January 2017.

STAFF AND REMUNERATION

The Group had 41 (2015: 39) employees as at 31 December 2016 and total staff costs during the year ended 31 December 2016 amounted to approximately HK$13,236,000 (2015: approximately HK$24,715,000). The Group offers competitive remuneration packages to its employees.

MANAGEMENT DISCUSSION AND ANALYSIS

OUTLOOK AND PROSPECT

The Group is facing intensified competition in the energy saving industry during the year, particularly for small and medium-sized projects. Having said that, due to the increasing awareness of the energy saving social responsibility and also the determination to reduce carbon emission, it is expected that energy saving and environmental protection would remain the key focus of the PRC government. Following the strategy to focus on sizeable enterprises and conglomerates, the Weldtech Group has successfully entered into projects with these corporations during the year. The Group will continue to target these customers with a view of securing a more steady and sizeable project pipeline for the Company, while enhancing the portfolio of our energy saving solutions to maximize the potential of our customers on top of the existing UPPC System and air conditioning solutions.

For loan financing and treasury investments, the Group will continue to explore potential investment opportunities with appropriate risk and return profile in the segments.

The Group will continue to explore various funding sources including project financing, debt financing and/or equity fundraising to finance the development of the Group's businesses.

BIOGRAPHICAL DETAILS OF DIRECTORS

EXECUTIVE DIRECTORS

Mr. So Yuen Chun ("Mr. So"), aged 45, was appointed as an independent non-executive director of the Company on 15 January 2010 and re-designated as an executive director of the Company on 1 December 2010. He was also appointed as the company secretary of the Company on 26 March 2011. Mr. So is a fellow member of the Association of Chartered Certified Accountants and a member of the Hong Kong Institute of Certified Public Accountants. He possesses more than 22 years of experience in the fields of auditing, accounting and finance. He is currently an executive director of Chinese Global Investors Group Limited (stock code: 5CJ.SI), a company listed on the Catalist board of the Singapore Exchange Securities Trading Limited.

Dr. Li Ai Guo ("Dr. Li"), aged 39, was appointed as an executive director of the Company on 10 September 2014. He is a director and chief technology officer of Haoxin Technology (Shanghai) Company Limited, a wholly owned subsidiary of the Company. Dr. Li is also a director of certain subsidiaries of the Company. Dr. Li was admitted to the Harbin Institute of Technology in 1996, and completed his bachelor's degree, master's degree and Ph.D. in heating, gas supply, ventilating and air conditioning engineering, and applied computer science, in 2000, 2003 and 2007 respectively.

Mr. Chong Kok Leong ("Mr. Chong"), aged 53, was appointed as an executive director of the Company on 1 October 2015. Mr. Chong has also been appointed as a director of certain subsidiaries of the Company since 3 August 2015. Mr. Chong has over 22 years of senior management experience with multinational companies in the Asia Pacific Region, of which 13 years have been in China. The management expertise of Mr. Chong has been with sales & marketing and channel development at regional and country levels, with key responsibilities covering sales & marketing, business strategies and channel development. Prior to joining the Company, Mr. Chong has been the Managing Partner of a successful digital solution and media network company based in Shanghai. From June 2009 to April 2013, Mr. Chong was the Managing Director of PC-Ware (Beijing) Commercial Co., Ltd., where its parent company PC-Ware GmbH was the second largest software distribution and IT solution company in Europe. From February 2006 to April 2009, Mr. Chong worked as the General Manager (Software Division) and the Senior Business Development Director, China of Ingram Micro Asia Holdings Limited, a B2B technology company. From 1996 to 2006, Mr. Chong worked at Hewlett-Packard Asia Pacific, primarily responsible for its channel development in China and South & South East Asian markets. Mr. Chong graduated with a Bachelor's Degree in Engineering (Mechanical) from the National University of Singapore in 1988, obtained a Master's Degree in Business Administration from Monash University in Melbourne, Australia in 1993, and was admitted as member of the CPA Australia in 1995.

BIOGRAPHICAL DETAILS OF DIRECTORS

Mr. Zhuang Miaozhong ("Mr. Zhuang"), aged 48, was appointed as an executive director of the Company on 16 January 2017. He is an independent director of China CEFC Energy Company Limited, the managing director of CEFC Hong Kong International Holdings Co., Limited, an executive director of China Energy Fund Committee and a director of CITIC International Assets Management Limited. He has over 15 years of work experience in petroleum industry, which includes working in state-owned enterprises in China, overseas corporations and large-scale enterprises. Mr. Zhuang has extensive knowledge and contacts within this field.

NON-EXECUTIVE DIRECTORS

Mr. Lam Kwok Hing, Wilfred, *J.P.* **("Mr. Lam")**, aged 57, was appointed as an independent non-executive director of the Company on 1 December 2010 and re-designated as a non-executive director of the Company on 21 October 2011. He was also appointed as a member of each of the audit, nomination and the remuneration committees of the Company, all with effect from 1 December 2010.

Mr. Lam is a non-executive director (re-designated from an executive director on 1 July 2015) of Hong Kong Resources Holdings Company Limited (stock code: 2882), a company listed on the Main Board of the Stock Exchange. Mr. Lam is also the chairman and an executive director of Chinese Strategic Holdings Limited (stock code: 8089), a company listed on the Growth Enterprise Market of the Stock Exchange (the "**GEM**").

Mr. Lam was a chairman and an executive director of Lamtex Holdings Limited (formerly known as China New Energy Power Group Limited) (stock code: 1041), a company listed on the Main Board of the Stock Exchange, from June 2015 to March 2016. Mr. Lam was initially appointed as an independent non-executive director of National Arts Entertainment and Culture Group Limited (stock code: 8228), a company listed on the GEM of the Stock Exchange, on 13 May 2009 and he resigned from his final positions of vice chairman and non-executive director on 11 July 2014. He was also an independent non-executive director of China Ever Grand Financial Leasing Group Co., Ltd (formerly known as PME Group Limited) (stock code: 379), a company listed on the Main Board of the Stock Exchange, from 14 April 2011 to 31 December 2014.

Mr. Lam is a Justice of the Peace of the Hong Kong Special Administrative Region and was awarded the Queen's Badge of Honour in January 1997. He holds a bachelor degree of Law with honours from The University of Hong Kong. He is a practising solicitor in Hong Kong and is a consultant lawyer of WT Law Offices and Lam, Lee & Lai Solicitors & Notaries. He also holds a professional qualification of Estate Agent's (Individual) Licence in Hong Kong.

Mr. Huang Lizhi ("Mr. Huang"), aged 65, was appointed as a non-executive director of the Company on 7 August 2014. He is a consultant with CITIC International Assets Management Limited ("**CIAM**"). Prior to joining CIAM, Mr. Huang held various positions including Deputy Director in Supreme People's Procuratorate of the People's Republic of China ("**PRC**") for over 19 years. Mr. Huang has extensive experience in the PRC, in particular, investment experience in environmentally friendly businesses.

BIOGRAPHICAL DETAILS OF DIRECTORS

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. Yuen Wai Man ("Ms. Yuen"), aged 45, was appointed as an independent non-executive director of the Company on 1 November 2012. She was also appointed as the chairman of each of the audit, nomination and remuneration committees of the Company, all with effect from 1 November 2012. She graduated from The University of Hong Kong with a degree in Business Administration in 1994. She is the fellow member of The Association of Chartered Certified Accountants, fellow member of The Hong Kong Institute of Certified Public Accountants and overseas member of The Chinese Institute of Certified Public Accountants. Ms. Yuen has worked in accounting and auditing area for over 22 years. She is an independent non-executive director of Chinese Strategic Holdings Limited (stock code: 8089), a company listed on the GEM of the Stock Exchange, since 4 July 2008. She was also appointed as an independent non-executive director of Trillion Grand Corporate Company Limited (formerly known as Tai Shing International (Holdings) Limited) (stock code: 8103), a company listed on the GEM of the Stock Exchange from 3 April 2014 to 30 December 2014. She was also appointed as an independent non-executive director of China Eco-Farming Limited (stock code: 8166), a company listed on the GEM of the Stock Exchange from 1 September 2016.

Mr. Yeung Wai Hung, Peter ("Mr. Yeung"), aged 59, was appointed as an independent non-executive director of the Company on 1 February 2011. He was also appointed as a member of each of the audit, nomination and remuneration committees of the Company, all with effect from 1 February 2011. Mr. Yeung holds a bachelor of laws degree from the University of London and a postgraduate certificate in laws from The University of Hong Kong. He possesses experience in the areas of mergers and acquisition and commercial contracts. He is a solicitor of High Court of Hong Kong. Mr. Yeung has been a practicing solicitor for over 27 years and a partner of Messrs. Hau, Lau, Li & Yeung, Solicitors & Notaries since 1992. Mr. Yeung is currently also an independent non-executive director of Chinese Food and Beverage Group Limited (stock code: 8272) and CircuTech International Holdings Limited (formerly known as TeleEye Holdings Limited) (stock code: 8051), both companies are listed on the GEM of the Stock Exchange.

Mrs. Chu Ho Miu Hing ("Mrs. Chu"), aged 75, was appointed as an independent non-executive director of the Company on 29 July 2014. She has more than 42 years of experience in the securities industry. Mrs. Chu holds a Bachelor's Degree in Chemistry from Mount Holyoke College and a Bachelor's Degree in Music from New England Conservatory of Music, both in the United States. Mrs. Chu was a Council Member of the Stock Exchange from 1994 to 2000. Mrs. Chu was also a member of the Hong Kong Special Administrative Region Election Committee from 1998 to 2000. She was the vice-chairman of The Chamber of Hong Kong Listed Companies.

Mr. Choy Hiu Fai, Eric ("Mr. Choy"), aged 39, was appointed as an independent non-executive director of the Company on 8 July 2016. He has more than 17 years of experience working in accounting firms in Hong Kong, including one of the Big 4 CPA firms. Mr. Choy graduated from The University of Hong Kong with a degree in Business Administration in 2000. He is also a member of The Hong Kong Institute of Certified Public Accountants, The Taxation Institute of Hong Kong and American Institute of CPAs.

DIRECTORS' REPORT

The directors of the Company (the "**Directors**") present this report together with the audited consolidated financial statements of the Group for the year ended 31 December 2016 (the "**Year**").

PRINCIPAL ACTIVITIES

The Group is principally engaged in treasury investments, provision of loan financing and design and provision of energy saving solutions. The principal activities and other particulars of the Company's subsidiaries are set out in note 39 to the consolidated financial statements.

SEGMENT INFORMATION

An analysis of the Group's revenue and results by principal activities for the Year is set out in note 7 to the consolidated financial statements.

BUSINESS REVIEW AND COMMENTARY

Financial Results

The financial results and business review of the Group for the Year is set out in this annual report on the section of "Management Discussion and Analysis" from pages 3 to 8.

Principal Risks and Uncertainties

The Group's financial condition, results of operations, businesses and prospects may be affected by a number of risks and uncertainties. The following are the key risks and uncertainties identified by the Group. There may be other risks and uncertainties in addition to those shown below which are not known to the Group or which may not be material now but could turn out to be material in the future.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Responsibility for managing operational risks basically rests with every function at divisional and department levels. The Group recognises that operational risks cannot be eliminated completely and that it may not always be cost-effective to do so.

Key functions in the Group are guided by their standard operating procedures, limits of authority and reporting framework. Functions such as, but not limited to, Internal Audit and Internal Control have the responsibility for providing assurance on the internal control framework. Key operational risk exposures are communicated to senior management as early as possible so that appropriate risk response can be taken.

DIRECTORS' REPORT

BUSINESS REVIEW AND COMMENTARY *(continued)*

Market Risks

PRC government policy

The energy saving industry is identified as one of the key industries and is backed by the PRC government, the PRC government will continue to commit to reduce per unit of GDP in carbon dioxide emissions and aim to cut energy intensity over the next five years. While the PRC government remains supportive in the area of energy saving and environment protection, there is no assurance that the PRC government will continue to pursue favorable policies towards the energy saving industry, or its favorable policies will not change in the future in a manner adverse to our business. In view of the Weldtech Group's reliance on government support and incentives for its business, any revision, change or abolition of the PRC government's policies towards the energy saving industry could have an adverse effect on the business, financial condition and results of operations of the Group.

PRC economic downturn

The Weldtech Group generates its revenue mainly from the sale of its products to commercial and industrial buildings in the PRC. Demand for the Weldtech Group's products depends on capital expenditure of commercial and industrial buildings on energy savings and the existence of service requirements. Any period of economic downturn in the PRC would reduce market demand for energy management systems, and a prolonged decline in market demand would have an adverse effect on the business, financial condition and results of operations of the Group.

Market competition

The Weldtech Group faces competition against other energy saving service providers. Therefore, there is no assurance that the Weldtech Group will be able to compete successfully against its current and future competitors.

Financial Risk

In the course of its business activities, the Group is exposed to a variety of financial risks, including market, liquidity and credit risks. The currency environment, interest rate cycles and mark to market value of investment securities may pose significant risks to the Group's financial condition, results of operations and businesses. The financial risk management objectives and policies of the Group can be found in note 5 to the consolidated financial statements.

Relationship with Employees, Customers and Suppliers

The Group understands the importance of maintaining a good relationship with its employees, customers and suppliers to meet it business goals. During the Year, there were no significant dispute between the Group and its employees, customers and suppliers.

DIRECTORS' REPORT

BUSINESS REVIEW AND COMMENTARY *(continued)*

Environmental Policy and Performance

The Group has strong commitment towards environmental protection. It is the Group's policy to encourage and promote awareness towards environmental protection to our employees. It has implemented green office practices such as double-sided printing and copying, promoting the use of recycled paper and reducing energy consumption by switching off idle lightings and electrical appliance in the Group's offices.

The management will review the Group's environmental practices from time to time and will consider implementing further ecology friendly measures and practices in the operation to enhance environmental protection and sustainability.

Compliance with laws and regulations

During the Year, there was no material breach of or non-compliance with the applicable laws and regulations by the Group.

Further discussion and analysis of these activities as required by Schedule 5 to the Companies Ordinance, including a discussion of an indication of the likely future developments in the Group's business, the Group's environmental policy and performance, can be found in the "Management Discussion and Analysis", "Corporate Governance Report", "Environmental, Social and Governance Report" and "Summary of Financial Information" sections of this annual report. The above sections form part of this Directors' Report.

RESULTS AND APPROPRIATIONS

The results of the Group for the Year are set out in the Consolidated Statement of Profit or Loss and Other Comprehensive Income on page 59.

The Directors do not recommend the payment of a final dividend for the Year (2015: Nil). No interim dividend was declared for the Year.

DONATIONS

The Group did not make any charitable donations during the Year (2015: Nil).

SUMMARY OF FINANCIAL INFORMATION

A summary of the published results and of the assets and liabilities of the Group for the last five financial years, as extracted from the audited consolidated financial statements, is set out on page 164.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group during the Year are set out in note 19 to the consolidated financial statements.

DIRECTORS' REPORT

SHARE CAPITAL

Details of movements in the share capital of the Company during the Year are set out in note 37 to the consolidated financial statements.

RESERVES

Details of movements in the reserves of the Group and of the Company during the Year are set out in the Consolidated Statement of Changes in Equity on page 62 and note 38 to the consolidated financial statements, respectively.

SUBSIDIARIES

Particulars of the Company's subsidiaries are set out in note 39 to the consolidated financial statements.

DIRECTORS

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

Executive Directors:

Mr. So Yuen Chun
Dr. Li Ai Guo
Mr. Chong Kok Leong
Ms. Khoo Pui Wun (resigned on 5 July 2016)
Mr. Zhuang Miaozhong (appointed on 16 January 2017)

Non-executive Directors:

Mr. Lam Kwok Hing, Wilfred
Mr. Huang Lizhi

Independent Non-executive Directors:

Ms. Yuen Wai Man
Mr. Yeung Wai Hung, Peter
Mrs. Chu Ho Miu Hing
Mr. Choy Hiu Fai, Eric (appointed on 8 July 2016)

In accordance with Article 110 of the Company's articles of association (the "**Articles of Association**"), Mr. Zhuang Miaozhong and Mr. Choy Hiu Fai, Eric will hold office until the forthcoming annual general meeting of the Company (the "**AGM**") and, being eligible, offer themselves for re-election at the forthcoming AGM.

DIRECTORS' REPORT

DIRECTORS *(continued)*

In accordance with Article 120 of the Articles of Association, Dr. Li Ai Guo, Mr. Huang Lizhi and Ms. Yuen Wai Man will retire by rotation and, being eligible, offer themselves for re-election at the forthcoming AGM.

None of the Directors proposed for re-election at the forthcoming AGM has an unexpired service contract with the Group which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

Ms. Khoo Pui Wun has resigned as Director on 5 July 2016 due to pursuit of her other career opportunities.

SERVICE CONTRACT OF DIRECTORS

Mr. So Yuen Chun has entered into a service contract with the Company for a fixed term of one year with effect from 1 December 2012 and to be continued thereafter and each of Dr. Li Ai Guo, Mr. Chong Kok Leong and Mr. Zhuang Miaozhong has entered into a service contract with the Company for a term of two years.

Mr. Lam Kwok Hing, Wilfred has entered into a service contract with the Company for a fixed term of one year and Mr. Huang Lizhi has entered into a service contract with the Company for a term of three years.

Each of Ms. Yuen Wai Man and Mr. Yeung Wai Hung, Peter has entered into a service contract with the Company for a fixed term of one year and each of Mrs. Chu Ho Miu Hing and Mr. Choy Hiu Fai, Eric has entered into a service contract with the Company for a term of three years.

DIRECTORS' REPORT

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

As at 31 December 2016, the interests or short positions of the Directors and chief executives in the shares, underlying shares and debentures of the Company and its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**") which were 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 they were taken or deemed to have under such provision of the SFO) or were required to be recorded in the register of interests required to be kept under Section 352 of the SFO or were otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") were as follows:

Long positions in ordinary shares of the Company

Name of Director	Capacity	Number of Shares held	Number of underlying shares held	Percentage of the issued number of shares as at 31 December 2016
Mr. So Yuen Chun	Beneficial interest	4,351,200	–	0.23%

Save as disclosed above, none of the Directors or chief executives of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) which were required to be recorded in the register of interests required to be kept under Section 352 of the SFO or were otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' REPORT

SHARE OPTION SCHEME

The Company operates a share option scheme adopted by the shareholders of the Company (the "**Shareholders**") on 22 May 2008 (the "**Share Option Scheme**") which shall be valid and effective for a period of ten years from the date of adoption, pursuant to which the Board may, at its discretion, grant options to any eligible participants.

The purpose of the Share Option Scheme is to enable the Company to grant options to selected eligible participants as incentives or rewards for their contribution to the Group and/or to enable the Group to recruit and retain high calibre employees and attract human resources that are valuable to the Group and any invested entity. Eligible participants include any employee (whether full time or part time), any executive Director and any non-executive Director (including independent non-executive Directors), or any of its subsidiaries or invested entity in which any member of the Group holds any equity interest, any shareholder of any member of the Group or any invested entity or any holder of any securities issued or proposed to be issued by any member of the Group or any invested entity and any other person (such as consultant, adviser, business partner or service provider of any member of the Group) whom the Board considers, in its sole discretion, has contributed or will contribute to the Group.

Under the Share Option Scheme, where any further grant of options to an eligible participant, if exercised in full, would result in the total number of shares already issued or to be issued upon exercise of all options granted and to be granted to such eligible participant (including exercised, cancelled and outstanding options) in any 12-month period up to and including the date of such further grant exceeding 1% of the total number of shares in issue (the "**Individual Limit**"), such further grant must be separately approved by the Shareholders in general meeting. Save for the foregoing, no eligible participant shall be granted an option if exercised in full, would exceed the Individual Limit. In addition, where any grant of options to a substantial shareholder or an independent non-executive Director, or any of their respective associates, would result in the shares issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of such grant: (a) representing in aggregate over 0.1% of the relevant class of shares in issue; and (b) having an aggregate value, based on the closing price of the shares at the date of each grant, in excess of HK$5,000,000, such further grant of options must be approved by the Shareholders.

DIRECTORS' REPORT

SHARE OPTION SCHEME *(continued)*

A consideration of HK$1 is payable on acceptance of the grant of an option. An option may be exercised in whole or in part by the grantee within the option period as determined and notified by the Board to the grantee. The Share Option Scheme does not specify a minimum period for which an option must be held before an option can be exercised. However, the provisions of the Share Option Scheme provide that the Board may impose, at its sole discretion, conditions on the grant of an option.

The subscription price for the shares under the Share Option Scheme will be a price determined by the Board in its absolute discretion but shall not be lower than the higher of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the 5 trading days immediately preceding the date of grant.

Notwithstanding the foregoing, the maximum number of shares to be issued upon the exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme of the Group must not in aggregate exceed 30% of the issued share capital of the Company from time to time.

The maximum number of Shares which may be allotted and issued upon the exercise of all share options shall not in aggregate exceed 10% of the Shares in issue as at the date of approval of the refreshed limit by the Shareholders (the "**Scheme Mandate Limit**"), and the existing Scheme Mandate Limit was approved by the Shareholders in the annual general meeting of the Company on 26 June 2015 and the outstanding number of options available for issue under the existing Scheme Mandate Limit is 146,368,809, representing 6.35% of the issued shares as at the date of this report.

DIRECTORS' REPORT

SHARE OPTION SCHEME *(continued)*

Details of the share options movements during the Year under the Share Option Scheme are as follows:

			Number of share options						
Name of category	**Date of grant of share options**	**Outstanding as at 01.01.2016**	**Granted during Year**	**Exercised during the Year**	**Lapsed during the Year**	**Cancelled during the Year**	**Outstanding as at 31.12.2016**	**Validity period of share options**	**Exercise price**
Director									
Ms. Khoo Pui Wun (resigned on 5 July 2016)	31.12.2015	1,000,000	–	–	1,000,000	–	–	01.01.2017 to 31.12.2018	HK$0.800
Employee	22.01.2015	4,000,000	–	–	–	–	4,000,000	22.01.2016 to 21.01.2018	HK$0.900
	22.01.2015	4,000,000	–	–	–	–	4,000,000	22.01.2017 to 21.01.2019	HK$1.500
Total		9,000,000	–	–	1,000,000	–	8,000,000		

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Save as disclosed under the sections headed "SHARE OPTION SCHEME" and "DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ASSOCIATED CORPORATION" above, at no time during the Year did there subsist any arrangements to which the Company or the Company's subsidiary or holding company or a subsidiary of the Company's holding company is a party, being arrangements whose objects are, or one of whose objects is, to enable Directors to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS OF SUBSIDIARIES

During the Year and up to the date of this report, Mr. Chan Chein Kwong, William, Mr. Chong Kok Leong, Ms. Hou Yu Jie, Dr. Li Ai Guo, Mr. Lo Kwok Tung and Mr. Lo Wing Yat are directors of certain subsidiaries of the Company.

Mr. So Yuen Chun, Mr. Yeung Kwok Leung and Mr. Cheng Lut Tim were directors of certain subsidiaries and have resigned during the Year.

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 December 2016, to the best knowledge of the Directors, interests or short positions of the persons, other than a Director or chief executive of the Company, in the shares and/or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO were as follows:

Name	Capacity	Number of Shares	Number of Underlying Shares	Approximate percentage of number of Shares in issue (Note 1)
CITIC Group Corporation (Note 2)	Interest of controlled corporation	102,552,205 (L)	934,846,668 (L)	53.97%
CITIC Limited (Note 2)	Interest of controlled corporation	102,552,205 (L)	934,846,668 (L)	53.97%
China CITIC Bank Corporation Limited (Note 2)	Interest of controlled corporation	102,552,205 (L)	934,846,668 (L)	53.97%
CITIC International Financial Holdings Limited (Note 2)	Interest of controlled corporation	102,552,205 (L)	934,846,668 (L)	53.97%
CIAM (Note 2)	Beneficial owner	102,552,205 (L)	934,846,668 (L)	53.97%
Cheng Lut Tim ("**Mr. Cheng**") (Note 3)	Interest of controlled corporation	–	113,665,537 (L)	5.91%
Wang Qin (Note 4)	Interest of controlled corporation	9,860,789 (L)	91,538,575 (L)	5.27%
Newmargin Partners Ltd. ("**Newmargin**") (Note 4)	Beneficial owner	9,860,789 (L)	91,538,575 (L)	5.27%
Liu Quanhui ("**Mr. Liu**") (Note 5)	Interest of controlled corporation	454,268,172 (L)	113,665,537 (L)	29.55%
Niu Fang ("**Ms. Niu**") (Note 5)	Interest of controlled corporation	454,268,172 (L)	113,665,537 (L)	29.55%
State Energy HK Limited ("**State Energy**") (Note 5)	Beneficial owner	454,268,172 (L)	113,665,537 (L)	29.55%

(L) denotes the long position held in the Shares

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY *(continued)*

Notes:

(1) As at 31 December 2016, the Company's number of issued Share was 1,922,086,816.

(2) These shares comprise (i) 102,552,205 shares held by CIAM; (ii) 911,251,162 conversion shares to be allotted and issued to CIAM upon the exercise of the conversion rights attaching to the Convertible Bonds issued to CIAM pursuant to the sale and purchase agreement on 31 October 2013 and (iii) 23,595,506 conversion shares to be allotted and issued to CIAM upon the exercise of the conversion rights attaching to the Convertible Bonds issued to CIAM under the CB Placing 2015. CIAM is owned as to 40% by CITIC International Financial Holdings Limited, which is owned as to 70.32% by China CITIC Bank Corporation Limited, which is owned as to 66.95% by CITIC Limited, which is wholly-owned by CITIC Group Corporation. By virtue of the SFO, each of CITIC International Financial Holdings Limited, China CITIC Bank Corporation Limited, CITIC Limited and CITIC Group Corporation is deemed to be interested in the shares held by CIAM.

(3) These shares comprise (i) 53,250,000 conversion shares to be allotted and issued to Ample Richness Investments Limited ("**Ample Richness**") upon the exercise of the conversion rights attaching to the convertible bonds issued to Ample Richness; and (ii) 60,415,537 conversion shares to be allotted and issued to Infinite Soar Limited ("**Infinite Soar**") upon the exercise of the conversion rights attaching to the convertible bonds issued to Infinite Soar pursuant to the sale and purchase agreement on 31 October 2013. As at 31 December 2016, both Ample Richness and infinite Soar are wholly-owned by Mr. Cheng. By virtue of the SFO, Mr. Cheng is deemed to be interested in the shares held by Ample Richness and Infinite Soar.

(4) These shares comprise (i) 9,860,789 shares held by Newmargin and (ii) 91,538,575 conversion shares to be allotted and issued to Newmargin upon the exercise of the conversion rights attaching to the convertible bonds issued to Newmargin pursuant to the sale and purchase agreement on 31 October 2013. Newmargin is wholly-owned by Mr. Wang Qin. By virtue of the SFO, Mr. Wang Qin is taken to be interested in the shares held by Newmargin.

(5) These shares comprise (i) 454,268,172 shares held by State Energy and (ii) 113,665,537 conversion shares to be allotted and issued to State Energy. Mr. Liu and Ms. Niu are interested in State Energy. By virtue of the SFO, Mr. Liu and Ms. Niu are deemed to be interested in the shares held by State Energy.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the Year, none of the Directors was considered to have interests in any business apart from the Group's business, which competes or is likely to compete, either directly or indirectly, with the business of the Group pursuant to the Listing Rules.

DIRECTORS' INTEREST IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as disclosed elsewhere, no transactions, arrangements and contracts of significance in relation to the Group's business to which the Company or its subsidiaries was a party and in which a Director of the Company or his or her core connected persons had a material interest, whether directly or indirectly, subsisted during or at the end of the year.

DIRECTORS' REPORT

EQUITY-LINKED ARRANGEMENTS

Except for convertible bonds and share options granted issued as more particularly disclosed in the respective note 33 and note 44 to the consolidated financial statements of the Company, the Company had no other equity-linked arrangements during the Year and subsisted as at 31 December 2016.

MANAGEMENT CONTRACTS

No contracts concerning the management and/or administration of the whole or any substantial part of the business of the Group was entered into or existed during the Year.

EMOLUMENT POLICY

Details of the Directors' emoluments and emoluments of the five highest paid individuals in the Group are set out in notes 14 and 15 to the consolidated financial statements, respectively.

The emolument policy of the employees of the Group is set up by the Remuneration Committee on the basis of the employees' merit, qualifications and competence.

The Directors' emoluments are recommended by the Remuneration Committee and approved by the Board, having regard to the Company's operating results, individual performance and comparable market statistics.

PURCHASE, SALE OR REDEMPTION OF SHARES

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

DIRECTORS' REPORT

MAJOR CUSTOMERS AND SUPPLIERS

During the Year, the Group's revenue attributed to the five largest customers accounted for approximately 92.8% of the Group's total revenue while the Group's revenue attributed to the largest customer accounted for approximately 46.5% of the Group's total revenue. To the best knowledge of the Directors, none of the Directors, their respective close associates; or any shareholder of the Company (which to the knowledge of the Directors own more than 5% of the Company's issued shares) has interests in these customers.

The Group had no major suppliers due to the nature of its principal activities.

RETIREMENT BENEFIT SCHEME

Details of the retirement benefit scheme of the Group and the employer's retirement benefit costs charged to the profit or loss for the Year are set out in note 43 to the consolidated financial statements.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed sufficient public float during the Year and up to the date of this report.

EVENTS AFTER THE REPORTING PERIOD

Details of significant events occurred after the reporting period are set out in note 47 to the consolidated financial statements.

INDEMNITY OF DIRECTORS

A permitted indemnity provision that provides for indemnity against liability incurred by Directors is currently in force and was in force throughout the Year.

DIRECTORS' REPORT

AUDITORS

The consolidated financial statements for the years ended 31 December 2012 and 2013 were audited by Messrs. ZHONGLEI (HK) CPA Company Limited ("**ZHONGLEI**", now known as Asian Alliance (HK) CPA Limited).

ZHONGLEI has resigned as auditor of the Company on 5 December 2014. HLB Hodgson Impey Cheng Limited ("**HLB**") has been appointed as auditors of the Company to fill the casual vacancy following the resignation of ZHONGLEI and audited the consolidated financial statements for the years ended 31 December 2014, 2015 and 2016. A resolution to re-appoint HLB as auditors of the Company will be proposed at the forthcoming AGM.

For and on behalf of the Board

Chong Kok Leong
Executive Director

Hong Kong, 31 March 2017

CORPORATE GOVERNANCE REPORT

The Company is committed to maintain a high standard of corporate governance within a sensible framework with an emphasis on the principles of transparency, accountability and independence. The Board believes that good corporate governance is essential to the success of the Company and to the enhancement of shareholders' value.

CORPORATE GOVERNANCE CODE

Throughout the Year, the Company applied the principles of and complied with the code provisions of the Corporate Governance Code (the "**CG Code**") contained in Appendix 14 to the Listing Rules of the Stock Exchange save for the following deviations:

Under code provision A.2.1 of the CG Code, the roles of chairman and chief executive ("**CE**") should be separate and should not be performed by the same individual. The Company did not appoint any chairman or CE during the Year. The functions of the chairman and CE are performed by Directors. The Board will review the current practice from time to time and make appropriate changes if considered necessary.

Under code provision A.2.7 of the CG Code, the chairman of the board should at least annually hold meetings with the non-executive directors (including independent non-executive directors) without the executive directors present. As the Company does not have a chairman, no such meeting was held in the Year.

Under code provision A.6.7 of the CG Code, independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. Some Directors were absent from the last annual general meeting of the Company held on 24 June 2016 due to their other important engagements at the relevant time.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the "Model Code for Securities Transactions by Directors of Listed Issuers" as set out in Appendix 10 of the Listing Rules as its code of conduct regarding securities transactions by the Directors. All Directors, following a specific enquiry by the Company, have confirmed that they have complied with the required standard as set out in the Model Code throughout the Year.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS

The Board currently comprises ten Directors, with four executive Directors, two non-executive Directors and four independent non-executive Directors. The composition of the Board is as follows:

Executive Directors:	Mr. So Yuen Chun Dr. Li Ai Guo Mr. Chong Kok Leong Mr. Zhuang Miaozhong
Non-executive Directors:	Mr. Lam Kwok Hing, Wilfred Mr. Huang Lizhi
Independent Non-executive Directors:	Ms. Yuen Wai Man Mr. Yeung Wai Hung, Peter Mrs. Chu Ho Miu Hing Mr. Choy Hiu Fai, Eric

The brief biographical details of the Directors are set out in the "BIOGRAPHICAL DETAILS OF DIRECTORS" section from pages 9 to 11. Save as disclosed in this annual report, none of the Directors has any other financial, business, family or other material or relevant relationships among members of the Board.

The independent non-executive Directors, with sound professional expertise and experience, have actively participated in the Board and committee meetings and brought independent judgment on issues relating to the Group's strategy, performance and management process. They have also taken up various roles in the Board committees.

As at the date of this report, the Company had four independent non-executive Directors representing not less than one-third of the Board. Two of the independent non-executive Directors have the appropriate professional qualifications or related financial management expertise under Rule 3.10(2) of the Listing Rules. The Board has received from each independent non-executive Director an annual confirmation of his independence and considers that all the independent non-executive Directors are independent under the guidelines set out in Rule 3.13 of the Listing Rules.

The independent non-executive Directors have been expressly identified as such in all corporate communications and the website of the Company that disclose the names of Directors. The independent non-executive Directors were appointed for a fixed term, subject to retirement by rotation and re-election requirements under the Articles of Association.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS *(continued)*

The Board meets regularly to discuss the overall strategy as well as the operation and financial performance of the Group in addition to the meetings for reviewing and approving the Group's annual and interim results.

During the Year, ten Board meetings and one AGM were held. Details of the attendance of the Directors are as follows:

	Attendance of	
	Board meetings	**Annual general meeting**
Executive Directors:		
Mr. So Yuen Chun	10/10	0/1
Dr. Li Ai Guo	9/10	0/1
Mr. Chong Kok Leong	9/10	1/1
Ms. Khoo Pui Wun (resigned on 7 July 2016)	2/2	1/1
Mr. Zhuang Miaozhong (appointed on 16 January 2017)	N/A	N/A
Non-executive Directors:		
Mr. Lam Kwok Hing, Wilfred	10/10	0/1
Mr. Huang Lizhi	9/10	0/1
Independent Non-executive Directors:		
Mr. Yeung Wai Hung, Peter	10/10	0/1
Ms. Yuen Wai Man	10/10	0/1
Mrs. Chu Ho Miu Hing	7/10	0/1
Mr. Choy Hiu Fai, Eric (appointed on 8 July 2016)	7/7	N/A

The Board has reserved for its decision or consideration matters covering mainly the Group's overall strategy, annual operating budget, financial performance, recommendations on Directors' appointment or re-appointment, material contracts and transactions as well as other significant policy and financial matters.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS *(continued)*

Each year, Board meetings, which are scheduled in advance to facilitate maximum attendance of Directors, are held as required by business needs. At least 14 days' notice of a Board meeting is given to all Directors for the regular meetings who are given an opportunity to include matters for discussion in the agenda. The company secretary of the Company (the "**Company Secretary**") assists the Directors in preparing the agenda for meetings and ensures that all applicable rules and regulations are complied with. Reasonable notices have been given to all Directors generally prior to meetings, except in cases of emergency. The agenda and the accompanying Board papers are normally sent to all Directors at least 3 days before the intended date of a regular Board meeting. All minutes are kept by the Company Secretary and are open for inspection at any reasonable time on reasonable notice by any Director.

According to the current Board practice, any transaction which involves a conflict of interests with a substantial shareholder or a Director and is considered by the Board to be material will be dealt with by the Board at a duly convened Board meeting. The Articles of Association also stipulate that a Director should abstain from voting and not be counted in the quorum at meetings for approving transactions in which such Director or any of his associates have a material interest therein. In addition, he has to declare his interests therein in accordance with the Articles of Association.

Every Director is entitled to have access to board papers and related materials and has access to the advice and services of the Company Secretary. The Board and each Director also have separate and independent access to the Company's senior management. Directors will be updated continuously on the major development of the Listing Rules and other applicable regulatory requirements to ensure compliance and upkeep of good corporate governance practices.

CORPORATE GOVERNANCE REPORT

INDEPENDENT NON-EXECUTIVE DIRECTOR/NON-EXECUTIVE DIRECTOR

All independent non-executive Directors and non-executive Directors were appointed for a specific term with effect from their respective appointment dates. All of them are subject to the relevant provisions in the Articles of Association or any other applicable laws whereby the Directors shall vacate or retire from their office.

According to the Articles of Association, at each AGM, one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) should retire from office by rotation. Further, any Directors appointed to fill a casual vacancy should hold office only until the next following general meeting of the Company whilst for those appointed as an addition to the Board should hold office until the next following AGM and, in both cases, those Directors would then be eligible for re-election at the relevant meeting. Every Director shall be subject to retirement by rotation at least once every three years.

BOARD COMMITTEES

The Board has established three committees; namely, the nomination committee (the "**Nomination Committee**"), the remuneration committee (the "**Remuneration Committee**") and the audit committee of the Company (the "**Audit Committee**"). Each of them has its specific written terms of reference or guidelines. Copies of minutes of all meetings and resolutions of the committees, which are duly kept by the Company Secretary, are circulated to all committee members. The committees are required to report back to the Board on their decisions and recommendations where appropriate. The procedures and arrangements for a Board meeting, as mentioned on pages 27 to 29 in the section "BOARD OF DIRECTORS" above, have been adopted for the committee meetings as far as practicable.

Nomination Committee

The Nomination Committee has been established since June 2005. As at the date of this report, the Nomination Committee comprises three independent non-executive Directors and one non-executive Director; namely, Messrs. Yuen Wai Man (chairman of the Nomination Committee), Lam Kwok Hing, Wilfred, Yeung Wai Hung, Peter and Chu Ho Miu Hing.

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES *(continued)*

Nomination Committee *(continued)*

The major roles and functions of the Nomination Committee are:

(a) to review the structure, size, composition and diversity (including but not limited to skills, knowledge, gender, age, cultural and educational background or professional experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

(b) to identify suitably qualified individuals to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships on merits and against objective criteria, with due regard on the benefits of diversity on the Board;

(c) to assess the independence of independent non-executive Directors;

(d) to make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the chairman of the Board and the chief executive of the Company, taking into account the Company's corporate strategy and the mix of skills, knowledge, experience and diversity needed in the future;

(e) to review the Board Diversity Policy, as appropriate, and review the measurable objectives that the Board has set for implementing the Board Diversity Policy, and the progress on achieving the objectives, and make disclosure of its review results in the Corporate Governance Report annually;

(f) to perform its duties with sufficient resources made available to it and seek independent professional advice, at the Company's expense, to perform its responsibilities when necessary;

(g) to do any such things to enable the Committee to perform its powers and functions conferred on it by the Board; and

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES *(continued)*

Nomination Committee *(continued)*

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

The terms of reference of the Nomination Committee were adopted in June 2005 and revised in August 2013 and have been posted on the Stock Exchange's website and the Company's website.

The Board has adopted a board diversity policy which sets out the approach to achieve diversity on the Board. Accordingly, selection of candidates to the Board is based on a range of measurable objectives, including but not limited to gender, age, cultural and educational background, professional experience and qualifications, skills, knowledge and length of service, having due regard to the Company's own business model and specific needs from time to time. With the existing Board members coming from a variety of business and professional background, the Company considers that the Board possesses a balance of skills, experience, expertise and diversity of perspectives appropriate to the requirements of the Company's business.

During the Year, two Nomination Committee meetings were held to make recommendations to the Board on the appointment and re-appointment of Directors, the review of the existing structure, size, composition and diversity of the Board, the re-election of retiring Directors and independence of independent non-executive Directors.

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

Nomination Committee member	**Number of Nomination Committee meetings attended/ eligible to attend**
Ms. Yuen Wai Man *(Chairman)*	2/2
Mr. Lam Kwok Hing, Wilfred	2/2
Mr. Yeung Wai Hung, Peter	2/2
Mrs. Chu Ho Miu Hing	1/2

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES *(continued)*

Remuneration Committee

The Remuneration Committee has been established since June 2005. As at the date of this report, the Remuneration Committee comprises three independent non-executive Directors and one non-executive Director; namely, Messrs. Yuen Wai Man (chairman of the Remuneration Committee), Lam Kwok Hing, Wilfred, Yeung Wai Hung, Peter and Chu Ho Miu Hing. The Remuneration Committee is provided with sufficient resources to discharge its duties and has access to independent professional advice in accordance with the Company's policy if considered necessary.

The major roles and functions of the Remuneration Committee are:

(i) 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;

(ii) to make recommendations to the Board on the remuneration packages of individual executive Directors and senior management. This should include benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment;

(iii) to make recommendations to the Board on the remuneration of non-executive Directors;

(iv) to consider salaries paid by comparable companies, time commitment and responsibilities, and employment conditions elsewhere in the Group;

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES *(continued)*

Remuneration Committee *(continued)*

(v) 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;

(vi) 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;

(vii) to ensure that no Director or any of his associates is involved in deciding his own remuneration;

(viii) to review and approve the management's remuneration proposals with reference to the Board's corporate goals and objectives; and

(ix) to ensure that the Company shall disclose details of any remuneration payable to the senior management in the annual reports.

The terms of reference of the Remuneration Committee were adopted in June 2005 and revised in March 2013 and have been posted on the Stock Exchange's website and the Company's website.

The Remuneration Committee shall meet at least once a year. During the Year, two Remuneration Committee meetings were held to review the remuneration packages of the Board and recommend remuneration proposals for newly appointed Directors.

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES *(continued)*

Remuneration Committee *(continued)*

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

Remuneration Committee member	Number of Remuneration Committee meetings attended/eligible to attend
Ms. Yuen Wai Man *(Chairman)*	2/2
Mr. Lam Kwok Hing, Wilfred	2/2
Mr. Yeung Wai Hung, Peter	2/2
Mrs. Chu Ho Miu Hing	1/2

The remuneration payable to Directors will depend on their respective contractual terms under their service contracts as approved by the Board on the recommendation of the Remuneration Committee. Details of the Directors' remuneration are set out in note 14 to the consolidated financial statements.

Audit Committee

As at the date of this report, the Audit Committee comprises two independent non-executive Directors and one non-executive Director, therefore the majority are independent non-executive Directors; namely, Messrs. Yuen Wai Man (chairman of the Audit Committee), Lam Kwok Hing, Wilfred and Yeung Wai Hung, Peter. The Audit Committee is provided with sufficient resources to discharge its duties and has access to independent professional advice according to the Company's policy if considered necessary.

During the Year, the Audit Committee has reviewed the Group's consolidated financial statements for the year ended 31 December 2015 and the interim financial report for the six months ended 30 June 2016, including the accounting principles and practice adopted by the Group.

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES *(continued)*

Audit Committee *(continued)*

The audited final results for the Year has been reviewed by the Audit Committee.

The major roles and functions of the Audit Committee are:

(i) 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 the external auditor, and any questions of its resignation or dismissal;

(ii) to review and monitor the external auditors' 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;

(iii) to develop and implement policy on engaging an external auditor to supply non-audit services. For this purpose, "external auditor" includes any entity that is under common control, ownership or management with the audit firm or any entity that a reasonable and informed third party knowing all relevant information would reasonably conclude to be part of the audit firm nationally or internationally. The Audit Committee should report to the Board, identifying and making recommendations on any matters where action or improvement is needed;

(iv) to monitor integrity of financial statements of the Company and its annual report and accounts, half-year report and, if prepared for publication, quarterly reports, and to review significant financial reporting judgments contained in them;

(v) to review the Company's financial reporting systems, risk management and internal control systems;

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES *(continued)*

Audit Committee *(continued)*

(vi) to discuss the risk management and internal control systems with management to ensure that management has performed its duty to have an effective systems. This discussion should include the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function;

(vii) 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;

(viii) 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 Company, and to review and monitor its effectiveness;

(ix) to review the Group's financial and accounting policies and practices;

(x) to review the external auditor's management letter, any material queries raised by the auditors to management about accounting records, financial accounts or systems of control and management's response;

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

(xii) to report to the Board on the matters set out in the CG Code; and

(xiii) to consider other topics, as defined by the Board.

The terms of reference of Audit Committee were adopted in January 2009 and revised in November 2015 and have been posted on the Stock Exchange's website and the Company's website.

The Audit Committee shall meet at least twice a year. During the Year, five Audit Committee meetings were held.

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES *(continued)*

Audit Committee *(continued)*

During the Year, the Audit Committee had performed the work as summarised below:

(i) recommended to the Board for the re-appointment of the Group's auditors for the Year;

(ii) reviewed the letter of representation and the financial statements for the year ended 31 December 2015 and recommended the same to the Board for approval;

(iii) reviewed the financial statements for the six months ended 30 June 2016 and recommended the same to the Board for approval;

(iv) discussed the effectiveness of the internal control and risk management systems throughout the Group, including financial, operational and compliance controls;

(v) discussed the engagement of professional party for the environmental, social and governance reporting of the Group; and

(vi) met with the auditors of the Company regarding the pre-audit matters for preparation of the audited financial statements for the Year.

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

Audit Committee member	**Number of Audit Committee meetings attended/eligible to attend**
Ms. Yuen Wai Man *(Chairman)*	5/5
Mr. Lam Kwok Hing, Wilfred	5/5
Mr. Yeung Wai Hung, Peter	4/5

CORPORATE GOVERNANCE REPORT

ACCOUNTABILITY AND AUDIT

Financial Reporting

The Directors acknowledge their responsibility for preparing, with support from the accounting department, the consolidated financial statements of the Group. In preparing the consolidated financial statements for the Year, the accounting principles generally accepted in Hong Kong have been adopted and the requirements of the Hong Kong Financial Reporting Standards (which also include Hong Kong Accounting Standards and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants and the applicable disclosure requirements of the Listing Rules and the Companies Ordinance were complied with. The financial statements were prepared on a going concern basis.

The reporting responsibilities of the Company's external auditors, HLB, are set out in the Independent Auditors' Report on pages 52 to 58.

Internal Control and Risk Management Systems

The Board is overall responsible for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Group's strategic objectives, and ensuring that the Group established and maintained appropriate and effective risk management and internal control systems.

The Audit Committee reviews the risk management and internal controls that are significant to the Group on an on-going basis. The Audit Committee considers the adequacy of resources, qualifications and experience and training of staff and external advisor of the Group's accounting, internal audit and financial reporting functions.

The management of the Group is responsible for designing, maintaining, implementing and monitoring the risk management and internal control system to ensure adequate control is in place to safeguard the Group's assets and stakeholder's interest.

The Group has established risk management procedures to address and handle all significant risks associated with the business of the Group. The Board conducts annual review on any significant change of the business environment and establish procedures to respond the risks resulting from significant change in business environment. The risk management and internal control systems are designed to mitigate potential losses of business.

CORPORATE GOVERNANCE REPORT

ACCOUNTABILITY AND AUDIT *(continued)*

Internal Control and Risk Management Systems *(continued)*

The management identifies risks associated with the business of the Group by considering both internal and external factors and events which include political, economic, technology, environmental, social and staff. Each type of risks has been assessed and prioritised based on their relevant impact and possibility of occurrence. The relevant risk management strategy will be applied to each type of risks according to the assessment results, and the types of risk management strategy are listed as follows:

– Risk retention and reduction: accept the impact of risk or undertake actions by the Group to reduce the impact of the risks;

– Risk avoidance: change business process or objective so as to avoid the risk;

– Risk sharing and diversification: diversify the effect of the risk or allocate to different location or product or market.

– Risk transfer: transfer ownership and liability to a third party

The internal control systems are designed and implemented to reduce the risks associated with the business accepted by the Group and minimise the adverse impact resulting from the risks. The risk management and internal control system is designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

For the Year, the Group has engaged an external advisory firm to undertake the internal audit function to ensure the effectiveness and efficiency of the risk management and internal control system of the Group. No significant deficiency and weakness on the internal control system has been identified by the external advisory firm for the Year.

The Board considered that, for the Year, the risk management and internal control system and procedures of the Group, covering all material controls including financial, operational and compliance controls and risk management functions, were reasonably effective and adequate.

The Company regulates the handling and dissemination of inside information as set out in the code of conduct to ensure inside information remains confidential until the disclosure of such information is appropriately approved, and the dissemination of such information is efficiently and consistently made.

External Auditors' Remuneration

During the Year, the remuneration payable to the Company's external auditors is set out as follows:

Services rendered for the Group

	Fee payable
	HK$'000
Audit services	850

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE FUNCTION

The Board is also responsible for performing the corporate governance duties with its written terms of reference as set out below:

(a) to develop and review the Company's policies and practices on corporate governance;

(b) to review and monitor the training and continuous professional development of the Directors and senior management;

(c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and

(e) to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

During the Year, the Board has reviewed the policy of the corporate governance and the corporate governance report of the Company.

TRAINING FOR DIRECTORS

Every newly appointed Director will receive an information package from the Company Secretary on the first occasion of his/her appointment. This information package is a comprehensive, formal and tailored induction on the responsibilities and on-going obligations to be observed by a Director pursuant to the Companies Ordinance, the Listing Rules and the SFO. In addition, this information package includes material which briefly describes the operations and business of the Company. Directors will be continuously updated on major development of the Listing Rules and other applicable regulatory requirements to ensure compliance and upkeep of good corporate governance practices.

The Company provides regular updates and presentations on changes and developments relating to the Group's business and the legislative and regulatory environments to the Directors at regular Board meetings.

The Directors are committed to complying with code provision A.6.5 of the CG Code and all Directors have participated in continuous professional development to develop and refresh their knowledge and skills and provided a record of training they received for the Year to the Company.

CORPORATE GOVERNANCE REPORT

TRAINING FOR DIRECTORS *(continued)*

The individual training record of each Director received for the Year is summarised as follows:

Directors	**Type of continuous professional development programmes**
Mr. So Yuen Chun	A, B
Dr. Li Ai Guo	B
Mr. Chong Kok Leong	B
Ms. Khoo Pui Wun (resigned on 5 July 2016)	A, B
Mr. Lam Kwok Hing, Wilfred	A
Mr. Huang Lizhi	B
Ms. Yuen Wai Man	A, B
Mr. Yeung Wai Hung, Peter	A
Mrs. Chu Ho Miu Hing	B
Mr. Choy Hiu Fai, Eric (appointed on 8 July 2016)	A, B

Notes:

A: attending seminars/forums/workshops/conferences relevant to the business or directors' duties
B: reading regulatory updates

COMPANY SECRETARY

Mr. So Yuen Chun has been appointed as the Company Secretary since 26 March 2011 and has taken no less than 15 hours of relevant professional training for the Year.

SHAREHOLDERS' RIGHTS

Right to convene extraordinary general meeting

The Directors, on the requisition of shareholder(s) of the Company holding at the date of the deposit of the requisition not less than one-twentieth of the paid-up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the rights, by written requisition to the Board or the Company Secretary, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition.

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 for the attention of the Company Secretary.

If the Directors do not within 21 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 date of deposit of the requisition.

CORPORATE GOVERNANCE REPORT

SHAREHOLDERS' RIGHTS *(continued)*

Right to put enquiries to the Board

Shareholders have the right to put enquiries to the Board. All enquiries shall be in writing and sent by post to the registered office of the Company, or by e-mail to admin@bla.com.hk for the attention of the Company Secretary.

Right to put forward proposals at general meetings

Pursuant to section 615 of the Companies Ordinance (Chapter 622 of the laws of Hong Kong), the members of the Company may request the Company to give, to members of the Company entitled to receive notice of the AGM, notice of a resolution that may properly be moved and is intended to be moved at that meeting. The request may be sent to the Company in hard copy form or in electronic form and must identify the resolution of which notice is to be given, be authenticated by the person or persons making it and be received by the Company not later than 6 weeks before the AGM to which the requests relates; or if later, the time at which notice is given of that meeting.

The Company will give notice of a resolution if it has received the requests from (a) members representing at least 2.5% of the total voting rights of all the members who have a right to vote on the resolution to which the request relate; or (b) at least 50 members who have a relevant right to vote on the resolution to which the request relate.

COMMUNICATION WITH SHAREHOLDERS

The Board recognises the importance of good communication with Shareholders. Information in relation to the Group is disseminated to Shareholders in a timely manner through a number of formal channels, which include interim and annual reports, announcements and circulars. Such published documents together with the latest corporate information as well as the recent development of the Group are also made available on the Stock Exchange's website and the Company's website.

The AGM is a valuable forum for the Board to communicate directly with the Shareholders. A number of Directors participated in the 2016 AGM and answered questions from the Shareholders. The AGM circular was distributed to all Shareholders at least 20 clear business days prior to the 2016 AGM, setting out the details of each proposed resolution and other relevant information.

There was no significant change in the Company's constitutional documents for the Year.

CORPORATE GOVERNANCE ENHANCEMENT

Enhancing corporate governance is not simply a matter of applying and complying with the CG Code of the Listing Rules but is also about promoting and developing an ethical and healthy corporate culture. We will continue to review and, where appropriate, improve our current practices on the basis of our experience, regulatory changes and developments. Any views and suggestions from our Shareholders to promote and improve our transparency are also welcome.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

1. INTRODUCTION

The Group is primarily engaged in treasury investment, provision of loan financing and design and provision of energy saving solutions. The Group is committed to operate its business in an economic, social and environmentally feasible manner. The Group understands the importance of environmental, social and governance ("**ESG**") and is devoted in making continuous improvements in corporate social responsibility to promote environmental protection, social responsibility and effective corporate governance.

The environmental, social and governance report of the Company (the "**ESG Report**") is presented under two subject areas, Environmental and Social. The relevant policies and the status of compliance with relevant laws and regulations as addressed by the Environmental, Social and Governance Reporting Guide ("**ESG Guide**") contained in Appendix 27 to the Listing Rules of the Stock Exchange will be disclosed in the respective subject area.

2. SCOPE OF THE REPORT

The Board is pleased to present the first ESG Report prepared under ESG Guide. During the Year, the Group has identified respective ESG aspects and assessed the materiality to the Group through operation reviews and internal discussions. The ESG Report has been reviewed and approved by the Board to ensure all material issues and impacts are fairly presented.

The ESG report would be separated into two subject areas and each subject area included relevant aspects as follows:

ESG aspect	Material ESG issue
3. Environmental	
3.1 Emissions	Carbon dioxide emission
3.2 Use of resources	Electricity and use of materials
3.3 Environment and natural resources	Energy saving
4. Social	
4.1 Employment	Labour practices
4.2 Health and safety	Workplace health and safety
4.3 Development and training	Employee development and training
4.4 Labour standards	Anti-child and forced labour
4.5 Supply chain management	Equal trading
4.6 Product responsibility	Quality and insurance
4.7 Anti-corruption	Anti-corruption and money laundering
4.8 Community investment	Community programs and donation

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

3. ENVIRONMENTAL

The Group is committed to adhere with the energy saving policy of the PRC which are stated in The Twelfth Five – Year Plan for National Economic and Social Development of the People's Republic of China and has engaged in design and provision of energy saving solutions. The energy saving solutions provided by the Group, which involves the design, installation and implementation of the "Ultra Performance Plant Control System" ("**UPPC System**"), enhanced the electricity consumption efficiency and lower the electricity consumption level for customers' office premises or throughout their process of production. The Group is committed to promote energy saving solutions and made contribution under the environmental friendly policy.

3.1 Emissions

The provision of UPPC System to customers included but not limited to the following procedures: (i) observe and investigate customers' existing facilities and level of consumption within the premises; (ii) perform trial runs regarding electricity consumption; (iii) perform UPPC System commissioning; (iv) installation of the UPPC System; and (v) on-going maintenance. The Group believed that there is no material carbon dioxide emissions generated from electricity during the course of installation of the UPPC System.

Waste materials may also be produced during the installation of the UPPC System and the Group has encouraged staff to use the materials more precisely and effectively to reduce waste. No substantial hazardous waste was produced by the Group during the reporting period.

In 2016, the Group complied with Law of Environmental Protection of the People's Republic of China and other applicable environmental laws and regulation.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

3. ENVIRONMENTAL *(continued)*

3.2 Use of Resources

As an environmental friendly and energy saving services provider, the Group is keen to allocate and utilise the resources in efficient and effective ways. Electricity and materials are the main resources used by the Group during the daily operation and provision of goods and services. For achieving the efficient use of resources, the Group has implemented the following key initiatives during the Year:

– standardise the amount of materials to be used when installing the UPPC System;

– check and re-use the remaining materials available after the completion of installation of UPPC System;

– use optimal temperature and light control in the workplace of the Group to reduce the of electricity consumption;

– switch off lights and air-conditions of the office when idle; and

– recommend staff to use recycle paper when printing internal documents for general purpose.

3.3 Environment and Natural Resources

In line with the government's energy saving targets and promotion of environmental protection, the Group promotes the UPPC System to the customers with flexible financing options. The Group has incorporated the environmental friendly policy as part of its vision and the vital for its sustainability of the business. The Group has also established policy and procedures to closely monitor the resource utilization and promote an environmental friendly culture within the Group.

The Group believed that incorporating environmental friendly elements into the culture and vision of the Group would allow management to sustain the development of environmental friendly business of the Group in the future.

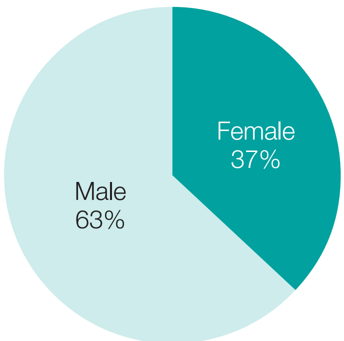
ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

4. SOCIAL

4.1 Employment

The Group values its employees as they are the key to success. It is committed to good workplace practice without discrimination and provide equal opportunities for all despite of age, gender, race, colour, sexual orientation, disability or marital status. The Group has also adopted principles in hiring new employees regardless of colour, religion, gender, nationality, race for selection, hiring, training, compensation, promotion and transfer of employees. During the Year, the Group has employed 41 staff in Hong Kong and PRC. The gender distribution are illustrated as follows:

Gender Distribution



Traditionally, there is more male engaged in the engineering field than female. The Group regularly reviews the gender distribution to ensure a balanced workplace environment to be maintained.

Labour Practices

Employment rights such as compensation and dismissal, recruitment and promotion, working hours, rest period, equal opportunity, diversity, anti-discrimination and welfare and other benefits were clearly stated in the employment contract to protect the interest of the staff.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

4. SOCIAL *(continued)*

4.1 Employment *(continued)*

Labour Practices (continued)

The Group encourages work-life balance to raise team spirit and promote good relations with the employees. The Group has organised activities for staff such as annual dinner to bond and increase staff satisfaction.

During the Year, the Group has complied with labour standards of laws and regulations along with policies in the staff handbook against child and forced labour.

4.2 Health and Safety

The Group is committed to keep its employees free from safety and health risks. The Group has fully complied with all relevant laws and regulations regarding the health and safety requirements of the Group during the year of 2016. The Group would ensure to follow the statutory requirements and company commitment as well.

Besides rules and regulations, the Group makes use of visual aids and diagrams to demonstrate safety rules. All employees are required to abide all safety rules and regulations and utilize applicable protection measures at all times to avoid accidents.

In order to provide a safe, healthy and comfortable working environment, the Group has complied with the Labour Law of People's Republic of China, the Law of the People's Republic of China on the Protection of Labour Rights and Interest and other applicable regulations.

4.3 Development and Training

The Group understands that staffs of the Company are the major key to success. The Group is committed to invest in employee training and development in order to improve and keep up-to-date employees' skillset under the dynamic business environment.

Trainings of the Group could be categorised into three aspects:

– New-comer programme

– On-the-job training programmes

– External trainings

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

4. SOCIAL *(continued)*

4.3 Development and Training *(continued)*

New employees are provided with on-board training to familiarize with the culture, business and operation of the Group. Also, for technical positions such as technical support, every newly-hired employee will be provided with pre-job technical training to enhance the professional skill.

The Group welcomes every staff to join training programmes according to their respective job duty, position. Human resources department would review all applications from the staffs and assign each staff to the most suitable training and development programme.

4.4 Labour Standards

Employment standards are one of the critical elements that management regularly reviewed. For instance, the policies of the human resources standard and procedures were included in the staff handbook, Management reviews the employment status of every employee in order to avoid recruiting staff who is under legal working age. In accordance with the Labour and Employment Law of the People's Republic of China in terms of Recruitment, the Group did not hire any staff who is under 16 years of age.

For the Year, there was no material breach of or non-compliance with the applicable labour standards by the Group.

4.5 Supply Chain Management

The Group maintains long term relationship with its suppliers to ensure stable supply. The supply chain policy requires suppliers to comply with all applicable regulations.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

4. SOCIAL *(continued)*

4.6 Product responsibility

As part of the revenue are generated from the UPPC System sales under finance lease, it is the Group's responsibility to ensure the product quality during the contract period. Management also believed that a good product quality control can enhance the reputation which is crucial to the future development of the Group.

During the Year, the Group has complied with relevant product quality related regulations and did not receive any compliant regarding service quality from the customers.

4.7 Anti-Corruption

In accordance with relevant laws and regulations in different region, the Group complies with guideline on anti-money laundering and counter-terrorist financing. If any suspicious transactions identified by the Group, the responsible officer of the Group would notify the related governing body.

The Group would regularly update policies regarding the relevant regulations of anti-money laundering and the code of conduct.

In addition, the Group has complied with the Anti-bribery and Anti-Corruption Policy China Addendum, Anti-Unfair Competition Law of the People's Republic of China, and interim Provisions on Banning Commercial Bribery to ensure compliance with Criminal Law of the People's Republic of China.

For the Year, there were no material cases of non-compliance with laws and regulations on anti-money laundering, corruption or bribery in Hong Kong and PRC.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

4. SOCIAL *(continued)*

4.8 Community investment

The Group believed corporate social responsibility is the pillar of the core corporate values that the Group endeavor for. It has devoted time and effort to return to the society as it has always encouraged its employees to take part into supporting environmental protection such as energy saving initiative and volunteer work for the community.

In the future, the Group will:

– seek opportunities to work with charitable organisations to get involved in different community programmes and contribute to the society; and

– promote health of its employees and customers by organising and taking part in sports and fitness activities.

INDEPENDENT AUDITORS' REPORT

HLB 國衛會計師事務所有限公司
Hodgson Impey Cheng Limited

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

TO THE MEMBERS OF
THE HONG KONG BUILDING AND LOAN AGENCY LIMITED
(Incorporated in Hong Kong with limited liability)

OPINION

We have audited the consolidated financial statements of The Hong Kong Building and Loan Agency Limited (the "Company") and its subsidiaries (the "Group") set out on pages 59 to 163, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditors' 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.

INDEPENDENT AUDITORS' REPORT

KEY AUDIT MATTERS *(continued)*

Key audit matter	How our audit addressed the key audit matter
Impairment assessment on energy saving solution business Refer to notes 18 and 21 to the consolidated financial statements The Group has the intangible assets of approximately HK$751,421,000 and goodwill of approximately HK$498,579,000 respectively relating to the design and provision of energy saving solutions segment as at 31 December 2016. Management performed impairment assessment of the design and provision of energy saving solutions and concluded that an impairment loss on goodwill of approximately of HK$110,381,000 was recognised for the year. This conclusion was based on value in use model that required significant management judgment with respect to the discount rate and underlying cash flows, in particular future revenue growth rate and capital expenditure. Independent external valuation were obtained in order to support management's estimates.	Our procedures in relation to management's impairment assessment included: • Evaluation of the independent valuer's competence, capabilities and objectivity; • Assessing the methodologies used and the appropriateness of key assumptions based on our knowledge of the relevant industry and using our valuation experts; • Challenging the reasonableness of key assumptions based on our knowledge of the business and industry; and • Checking, on a sample basis, the accuracy and relevance of the input data used. We found the key assumptions were supported by the available evidence.

INDEPENDENT AUDITORS' REPORT

KEY AUDIT MATTERS *(continued)*

Key audit matter	How our audit addressed the key audit matter
Valuation of finance lease receivables	
Refer to note 28 to the consolidated financial statements.	
The Group has the finance lease receivables of approximately HK$23,288,000 as at 31 December 2016 and no impairment loss has been made during the year. Management judgement is required in assessing and determining the recoverability of finance lease receivables. The judgement mainly includes estimating and evaluating expected future cash receipts from customers based on the historical settlement records and individual assessment on recoverability of finance lease receivables.	Our procedures in relation to valuation on finance lease receivables included: • Obtaining an understanding and evaluating of impairment assessment by the management. • Discussing the Group's procedures on credit limits and credit periods given to customers with the management; • Assessing, validating and discussing with the management and evaluating their assessment on the recoverability of the finance lease receivables; and • Checking on a sample basis, the accuracy and relevance of information in the impairment assessment of finance lease receivables. We consider the management conclusion to be consistent with the available information.

INDEPENDENT AUDITORS' REPORT

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 auditors' report thereon ("Other Information").

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 the Other Information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF THE DIRECTORS AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as directors determines 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 has no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

INDEPENDENT AUDITORS' REPORT

AUDITORS' 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 auditors' report that includes our opinion. We report our opinion solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

INDEPENDENT AUDITORS' REPORT

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

- 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 auditors' 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 auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

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

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

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

INDEPENDENT AUDITORS' REPORT

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' 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 director on the audit resulting in this independent auditors' report is Shek Lui.

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

Shek Lui
Practising Certificate Number: P05895

Hong Kong, 31 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Notes	2016 *HK$'000*	2015 *HK$'000*
Revenue	8	**22,080**	16,776
Cost of operations		**(14,703)**	(14,341)
Gross profit		**7,377**	2,435
Other income	9	**2,393**	2,457
Other gains and losses	10	**(201)**	(2,574)
Fair value change on contingent consideration payables		**–**	93,103
Net (loss)/gain on financial assets at fair value through profit or loss		**(2,181)**	886
Gain/(Loss) on disposal of subsidiaries		**43,019**	(80,531)
Impairment loss on goodwill	21	**(110,381)**	(666,660)
Impairment loss on available-for-sale financial assets		**–**	(9,777)
Selling expenses		**(1,457)**	(6,380)
Administrative and operating expenses		**(77,609)**	(112,012)
Loss from operations		**(139,040)**	(779,053)
Finance costs	11	**(81,940)**	(87,470)
Loss before taxation	13	**(220,980)**	(866,523)
Taxation	12	**19,052**	51,095
Loss for the year		**(201,928)**	(815,428)
Other comprehensive income/(loss) for the year, net of tax			
Items that may be reclassified subsequently to profit or loss:			
Gain on revaluation of available-for-sale financial assets		**958**	–
Exchange differences on translating foreign operations		**(2,164)**	(358)
Other comprehensive loss for the year, net of tax		**(1,206)**	(358)
Total comprehensive loss for the year, net of tax		**(203,134)**	(815,786)
Loss for the year attributable to owners of the Company		**(201,928)**	(815,428)
Total comprehensive loss attributable to owners of the Company		**(203,134)**	(815,786)
		HK cents	*HK cents*
Loss per share			
Basic and diluted	17	**(10.51)**	(52.33)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
Non-current assets			
Intangible assets	18	**751,421**	805,905
Property, plant and equipment	19	**1,143**	1,910
Construction in progress	20	**2,201**	6,630
Goodwill	21	**498,579**	608,960
Loan receivables	22	**–**	87
Available-for-sale financial assets	23	**11,047**	10,089
Finance lease receivables	28	**14,291**	15,917
		1,278,682	1,449,498
Current assets			
Loan receivables	22	**–**	163
Financial assets at fair value through profit or loss	24	**–**	12,934
Inventories	25	**648**	813
Trade and bills receivables	26	**2,271**	123
Prepayments, deposits and other receivables	27	**1,234**	1,987
Finance lease receivables	28	**8,997**	8,529
Amounts due from customers under construction contracts	29	**693**	441
Pledged bank deposits	30	**–**	236
Cash and bank balances	30	**34,360**	79,474
		48,203	104,700
Current liabilities			
Trade and other payables	31	**11,447**	18,072
Amounts due to shareholders	32	**1,790**	1,543
Convertible bonds	33	**30,883**	–
Financial liabilities derivatives	33	**419**	3,400
Promissory notes	34	**–**	42,672
		44,539	65,687
Net current assets		**3,664**	39,013
Total assets less current liabilities		**1,282,346**	1,488,511

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	Notes	**2016** ***HK$'000***	2015 *HK$'000*
Non-current liabilities			
Convertible bonds	33	**435,173**	424,494
Promissory notes	34	**95,660**	90,454
Deferred tax liabilities	36	**197,210**	216,262
		728,043	731,210
Net assets		**554,303**	757,301
Capital and reserves			
Share capital	37	**1,210,498**	1,210,498
Reserves		**(656,195)**	(453,197)
Total equity		**554,303**	757,301

Approved and authorised for issue by the board of directors on 31 March 2017 and signed on its behalf by:

Dr. Li Ai Guo
Director

Mr. Chong Kok Leong
Director

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

		Reserves					
	Share capital HK$'000	Share options reserve HK$'000	Convertible bond reserve HK$'000	Available for sales investment reserve HK$'000	Exchange reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2015	667,298	–	910,937	–	337	(319,447)	1,259,125
Loss for the year	–	–	–	–	–	(815,428)	(815,428)
Other comprehensive loss for the year	–	–	–	–	(358)	–	(358)
Total comprehensive loss for the year	–	–	–	–	(358)	(815,428)	(815,786)
Equity settled share option arrangement (Note 44)	–	471	–	–	–	–	471
Issuance of convertible bonds (Note 33(d))	–	–	10,296	–	–	–	10,296
Deferred tax arising on issue of convertible bonds (Note 36)	–	–	(1,699)	–	–	–	(1,699)
Issuance of shares upon conversion of convertible bonds (Notes 33 and 37)	393,087	–	(238,306)	–	–	–	154,781
Issuance of share upon placing (Note 37)	154,860	–	–	–	–	–	154,860
Transaction cost attributable to placing new shares	(4,747)	–	–	–	–	–	(4,747)
At 31 December 2015	1,210,498	471	681,228	–	(21)	(1,134,875)	757,301
At 1 January 2016	1,210,498	471	681,228	–	(21)	(1,134,875)	757,301
Loss for the year	–	–	–	–	–	(201,928)	(201,928)
Other comprehensive income/(loss) for the year	–	–	–	958	(2,164)	–	(1,206)
Total comprehensive income/(loss) for the year	–	–	–	958	(2,164)	(201,928)	(203,134)
Equity settled share option arrangement (Note 44)	–	136	–	–	–	–	136
Early redemption of convertible bonds (Note 33(d))	–	–	(3,868)	–	–	3,868	–
At 31 December 2016	**1,210,498**	**607**	**677,360**	**958**	**(2,185)**	**(1,332,935)**	**554,303**

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	Notes	**2016** **HK$'000**	2015 HK$'000
Cash flows from operating activities			
Loss before taxation		**(220,980)**	(866,523)
Adjustments for:			
Finance costs	11	**81,940**	87,470
Depreciation of property, plant and equipment	19	**714**	2,099
Impairment loss on available-for-sales financial assets		**–**	9,777
Loss on early redemption of convertible bonds	10	**1,652**	–
Net loss/(gains) on financial assets at fair value through profit or loss	13	**2,181**	(886)
Fair value changes on contingent consideration payables	35	**–**	(93,103)
Fair value change on financial liabilities derivatives	10	**(1,451)**	2,574
Loss on disposal of property, plant and equipment		**37**	173
Written off of property, plant and equipment		**–**	1,097
Bank interest income		**(77)**	(71)
Impairment loss on goodwill	21	**110,381**	666,660
Impairment on finance lease receivables		**–**	6,955
Share-based payment expenses		**136**	471
Amortisation of intangible assets	18	**54,484**	54,484
(Gain)/loss on disposal of subsidiaries	40	**(43,019)**	80,531
Operating loss before working capital changes		**(14,002)**	(48,292)
Decrease in financial assets at fair value through profit or loss		**819**	12,306
Decrease in loan receivables		**26**	150
Decrease in prepayments, deposits and other receivables		**105**	739
Increase in amount due from customers under construction contract		**(252)**	(140)
(Increase)/decrease in trade and bills receivable		**(2,148)**	1,080
Decrease/(increase) in finance lease receivable		**1,158**	(3,661)
Decrease/(increase) in inventories		**166**	(136)
Decrease in construction in progress		**4,429**	3,901
Decrease in trade and other payables		**(5,248)**	(1,528)
Increase/(decrease) in amounts due to shareholders		**247**	(51,813)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	Notes	**2016** **HK$'000**	2015 HK$'000
Cash used in operations		**(14,700)**	(87,394)
Interest paid		**(2,817)**	(2,289)
Income tax refund		**–**	1,867
Net cash used in operating activities		**(17,517)**	(87,816)
Cash flows from investing activities			
Purchase of available-for-sale financial assets		**–**	(19,866)
Purchase of property, plant and equipment		**(77)**	(800)
Bank interest income received		**77**	71
Net cash inflow from disposal of subsidiaries	40	**1,257**	1,000
Proceeds from disposal of property, plant and equipment		**–**	209
Net cash generated from/(used in) investing activities		**1,257**	(19,386)
Cash flows from financing activities			
Payment of redemption of convertible bonds		**(27,000)**	–
Proceeds from issuance of convertible bonds		**–**	58,200
Proceeds from issuance of promissory notes		**–**	41,000
Repayment of borrowings		**–**	(40,000)
Repayment of non-convertible bonds		**–**	(40,000)
Proceeds from issue of shares upon placing, net of share issuing cost		**–**	150,113
Decrease in pledged bank deposits		**236**	18
Net cash (used in)/generated from financing activities		**(26,764)**	169,331
Net (decrease)/increase in cash and cash equivalents		**(43,024)**	62,129
Cash and cash equivalents at beginning of year		**79,474**	17,512
Effect of exchange rate changes on the balance of cash held in foreign currencies		**(2,090)**	(167)
Cash and cash equivalents at end of year		**34,360**	79,474
Analysis of balances of cash and cash equivalents			
Cash and bank balances		**34,360**	79,474

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

1. CORPORATE INFORMATION

The Hong Kong Building and Loan Agency Limited (the "Company") was incorporated in Hong Kong and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The registered office of the Company is Unit F, 7/F, China Overseas Building, 139 Hennessy Road, Wanchai, Hong Kong.

The consolidated financial statements are presented in Hong Kong dollars ("HK$") which is the same as functional currency of the Company and rounded to the nearest thousand (HK$'000), unless otherwise stated.

The Company is an investment holding company and its subsidiaries are principally engaged in treasury investments and provision of loan financing and design and provision of energy saving solutions.

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

In the current year, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations ("new and revised HKFRSs") issued by the HKICPA, which are effective for the Group's financial year beginning on or after 1 January 2016.

HKFRSs (Amendments)	Annual Improvements to HKFRSs 2012-2014 Cycle
HKFRS 10, HKFRS 12 and HKAS 28 (Amendments)	Investment Entities: Applying the Consolidation Exception
HKFRS 11 (Amendments)	Accounting for Acquisition of Interests in Joint Operations
HKFRS 14	Regulatory Deferral Accounts
HKAS 1 (Amendments)	Disclosure Initiative
HKAS 16 and 38 (Amendments)	Clarification of Acceptable Methods of Depreciation and Amortisation
HKAS 16 and 41 (Amendments)	Agriculture: Bearer Plants
HKAS 27 (Amendments)	Equity Method in Separate Financial Statements

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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

Annual Improvements to HKFRSs 2012-2014 Cycle

The Annual Improvements to HKFRSs 2012-2014 Cycle include a number of amendments to various HKFRSs, which are summarised below.

The amendments to HKFRS 5 introduce specific guidance in HKFRS 5 for when an entity reclassifies an asset (or disposal group) from held for sale to held for distribution to owners (or vice versa), or when held-for-distribution accounting is discontinued. The amendments shall be applied prospectively.

The amendments to HKFRS 7 *Disclosure – Offsetting Financial Assets and Financial Liabilities* provide additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of the disclosures required in relation to transferred assets and clarify that the offsetting disclosures (introduced in the amendments to HKFRS 7 issued in December 2011 and effective for periods beginning on or after 1 January 2013) are not explicitly required for all interim periods. However, the disclosures may need to be included in condensed interim financial statements to comply with HKAS 34 *Interim Financial Reporting.*

The amendments to HKAS 19 clarify that the high quality corporate bonds used to estimate the discount rate for post-employment benefits should be issued in the same currency as the benefits to be paid. These amendments would result in the depth of the market for high quality corporate bonds being assessed at currency level. The amendments apply from the beginning of the earliest comparative period presented in the financial statements in which the amendments are first applied. Any initial adjustment arising should be recognised in opening retained earnings of the earliest comparative period presented.

The amendments to HKAS 34 clarify the requirements relating to information required by HKAS 34 that is presented elsewhere in the interim financial report. The amendments require that such information be incorporated by way of a cross reference from the interim financial statements to the other part of the interim financial report that is available to users on the same terms and at the same time as the interim financial statements.

The directors of the Company do not anticipate that the application of the said amendments to HKFRSs will have a material effect on the Group's consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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

Amendments to HKFRS 10, HKFRS 12 and HKAS 28 *Investment Entities: Applying the Consolidation Exception*

The amendments to HKFRS 10 *Consolidated Financial Statements*, HKFRS 12 *Disclosure of Interests in Other Entities* and HKAS 28 *Investments in Associates and Joint Ventures* clarify that the exemption from preparing consolidated financial statements is available to a parent entity that is a subsidiary of an investment entity, even if the investment entity measures all its subsidiaries at fair value in accordance with HKFRS 10. The amendments also clarify that the requirement for an investment entity to consolidate a subsidiary, whose main purpose is to provide services and activities that are related to the investment activities of the investment entity parent, applies only to subsidiaries that are not investment entities themselves.

The application of these amendments to HKFRS 10, HKFRS 12 and HKAS 28 has had no material impact on the Group's consolidated financial statements as the Group is not an investment entity and does not have any subsidiary, associate or joint venture that qualifies as an investment entity.

Amendments to HKFRS 11 *Accounting for Acquisitions of Interests in Joint Operations*

The amendments to HKFRS 11 provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in HKFRS 3 *Business Combinations*. Specifically, the amendments state that the relevant principles on accounting for business combinations in HKFRS 3 and other standards (e.g. HKAS 36 regarding impairment testing of a cash-generating unit ("CGU") to which goodwill on acquisition of a joint operation has been allocated) should be applied. The same requirements should be applied to the formation of a joint operation if and only if an existing business is contributed to the joint operation on its formation by one of the parties that participate in the joint operation.

A joint operator is also required to disclose the relevant information required by HKFRS 3 and other standards for business combinations.

The amendments to HKFRS 11 apply prospectively for annual periods beginning on or after 1 January 2016. The directors of the Company do not anticipate that the application of these amendments to HKFRS 11 will have a material impact on the Group's consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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

Amendments to HKAS 1 *Disclosure Initiative*

The amendments to HKAS 1 are designed to further encourage companies to apply professional judgment in determining what information to disclose in their financial statements. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. Furthermore, the amendments clarify that companies should use professional judgment in determining where and in what order information is presented in the financial disclosures.

The application of these amendments to HKAS 1 has had no material impact on the Group's consolidated financial statements.

Amendments to HKAS 16 and HKAS 38 *Clarification of Acceptable Methods of Depreciation and Amortisation*

The amendments to HKAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to HKAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

- when the intangible asset is expressed as a measure of revenue; or
- when it can be demonstrated that revenue and consumption of the economic benefits of the intangible asset are highly correlated.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016. Currently, the Group uses the straight-line method for depreciation for its plant and equipment. The directors of the Company believe that the straight-line method is the most appropriate method to reflect the consumption of economic benefits inherent in the respective assets and accordingly, the directors of the Company do not anticipate that the application of these amendments to HKAS 16 and HKAS 38 will have a material impact on the Group's consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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

Amendments to HKAS 27 *Equity Method in Separate Financial Statements*

The amendments allow an entity to account for investments in subsidiaries, joint ventures and associates in its separate financial statements:

- at cost;
- in accordance with HKFRS 9 *Financial Instruments* (or HKAS 39 for entities that have not yet adopted HKFRS 9); or
- using the equity method as described in HKAS 28 *Investments in Associates and Joint Ventures*.

The accounting option must be applied by category of investments.

The amendments also clarify that when a parent ceases to be an investment entity, or becomes an investment entity, it shall account for the change from the date when the change in status occurred.

In addition to the amendments to HKAS 27, there are consequential amendments to HKAS 28 to avoid a potential conflict with HKFRS 10 Consolidated Financial Statements and to HKFRS 1 First-time Adoption of Hong Kong Financial Reporting Standards.

The directors of the Company do not anticipate that the application of these amendments to HKAS 27 will have a material impact on the Group's consolidated financial statements.

The application of the other new and revised HKFRSs in the current year has had no material impact on the Group's financial performance and position for the current and prior years and on the disclosures set out in these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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

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

HKFRS (Amendments)	Annual Improvements to HKFRS, 2014-2016 Cycle[5]
HKFRS 2 (Amendments)	Classification and Measurement of Share-Based Payment Transaction[2]
HKFRS 4 (Amendments)	Insurance Contracts[2]
HKFRS 9	Financial Instruments[2]
HKFRS 10 and HKAS 28 (Amendments)	Sales or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
HKFRS 15	Revenue from Contracts with Customers[2]
HKFRS 15 (Amendments)	Clarifications to HKFRS 15 Revenue from Contracts with Customers[2]
HKFRS 16	Leases[3]
HKAS 7 (Amendments)	Disclosure Initiative[1]
HKAS 12 (Amendments)	Recognition of Deferred Tax Assets for Unrealised Losses[1]

1 Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted.
2 Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.
3 Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted.
4 Effective for annual periods beginning on or after a date to be determined.
5 Effective for annual periods beginning on or after 1 January 2017 or after 1 January 2018, as appropriate.

HKFRS 9 *Financial Instruments*

HKFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in 2013 to include the new requirements for general hedge accounting. Another revised version of HKFRS 9 was issued in 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a fair value through other comprehensive income measurement category for certain simple debt instruments.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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

HKFRS 9 *Financial Instruments* *(continued)*

Key requirements of HKFRS 9 that are relevant to the Group are described as follows:

- All recognised financial assets that are within the scope of HKAS 39 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 reporting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

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

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

- The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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

HKFRS 9 *Financial Instruments* *(continued)*

The directors of the Company anticipate that the application of HKFRS 9 in the future may impact the amounts reported and disclosures made in the Group's consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect until a detailed review has been completed.

Amendments to HKFRS 10 and HKAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

Amendments to HKFRS 10:

- An exception from the general requirement of full gain or loss recognition has been introduced into HKFRS 10 for the loss control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method.

- New guidance has been introduced requiring that gains or losses resulting from those transactions are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement at fair value of investments retained in any former subsidiary that has become an associate or a joint venture that is accounted for using the equity method are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

Amendments to HKAS 28:

- The requirements on gains and losses resulting from transactions between an entity and its associate or joint venture have been amended to relate only to assets that do not constitute a business.

- A new requirement has been introduced that gains or losses from downstream transactions involving assets that constitute a business between an entity and its associate or joint venture must be recognised in full in the investor's financial statements.

- A requirement has been added that an entity needs to consider whether assets that are sold or contributed in separate transactions constitute a business and should be accounted for as a single transaction.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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

Amendments to HKFRS 10 and HKAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture* *(continued)*

The directors of the Company do not anticipate that the application of these amendments to HKFRS 10 and HKAS 28 will have a material impact on the Group's consolidated financial statements.

HKFRS 15 Revenue from Contracts with Customers

In July 2014, 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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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

HKRS 15 Revenue from Contracts with Customers *(continued)*

The Group is in the process of assessing the potential impact of the other new and revised HKFRSs upon initial application but is not yet in a position to state whether the other new and revised HKFRSs, will have a significant impact on the Group's financial performance and position.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

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

Basis of preparation

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Basis of preparation *(continued)*

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

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

(a) 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.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(a) Basis of consolidation *(continued)*

- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous patterns at previous shareholders' meetings.

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

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

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

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

Changes in the Group's ownership interests in existing subsidiaries

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(a) Basis of consolidation *(continued)*

Changes in the Group's ownership interests in existing subsidiaries (continued)

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

(b) Investments in subsidiaries

Investments in subsidiaries are included in the Company's statement of financial position at cost less any identified accumulated impairment loss. Results of subsidiaries are accounted for by the Company on the basis of dividends received or receivable during the year.

(c) Business combination

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 at the acquisition date, except that:

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Business combination *(continued)*

(ii) liabilities or equity instruments related to share-based payment transactions of the acquiree or the replacement of an acquiree's share-based payment transactions with share-based payment transactions of the Group are measured in accordance with HKFRS 2 Share-based Payment at the acquisition date; and

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

Non-controlling interests that are present ownership interests and entitle their holders 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 interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or another measurement basis required by another standard.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(c) Business combination *(continued)*

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39, or HKAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

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

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or 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.

(d) Goodwill

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

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(d) Goodwill *(continued)*

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in consolidated statement of profit or loss and other comprehensive income. 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 profit or loss on disposal.

(e) Impairment of non-financial assets (other than goodwill)

At the end of each reporting period, the Group reviews the carrying amounts of its tangible 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 asset is estimated in order to determine the extent of the impairment loss (if any).

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 the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(e) Impairment of non-financial assets (other than goodwill) *(continued)*

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

(f) Revenue recognition

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

Sale of goods

Revenue from the sale 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.

Rendering of service

Revenue from provision of service is recognised when services are provided.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(f) Revenue recognition *(continued)*

Finance lease interest income

Finance lease interest income is recognised on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Interest income

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

Dealings income

Dealings in financial assets at fair value through profit or loss are recognized on a trade date basis when the relevant contract notes are exchanged.

Dividend income

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

(g) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(g) Property, plant and equipment *(continued)*

Depreciation is provided on the straight line method so as to write down the cost of property, plant and equipment to their realisable value over their anticipated useful lives at the following annual rates:

Leasehold improvement:	Over the shorter the term of the lease or 20%
Office equipment:	25%
Furniture and fixture:	20%
Computer:	25%

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed and adjusted if appropriate, at least at each financial year end.

If an item of property, plant and equipment becomes an investment property because its use has changed as evidenced by end of owner-occupation, any difference between the carrying amount and the fair value of that item at the date of transfer is recognised in other comprehensive income and accumulated in property revaluation reserve. On the subsequent sale or retirement of the asset, the relevant revaluation reserve will be transferred directly to retained profits.

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 derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the year in which the item is derecognised.

(h) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average costing method. Net realisable value is based on estimated selling price less any estimated costs to be incurred to completion on sale.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(i) Construction contracts

Where the outcome of a construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, measured based on the proportion of contract costs incurred for work performed to date relative to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

Where the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as the amounts due to customers for contract work. Amounts received before the related work is performed are included in the consolidated statement of financial position, as a liability, as advances received. Amounts billed for work performed but not yet paid by the customer are included in the consolidated statement of financial position under trade and other receivables.

(j) 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

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(j) Leasing *(continued)*

The Group as lessee

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight line basis.

(k) Foreign currencies translation

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 in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) 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 re-translated at the rates prevailing on the end of the reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are re-translated 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 re-translated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financial statements. Exchange differences arising on the re-translation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the re-translation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(k) Foreign currencies translation *(continued)*

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 the reporting period. Exchange differences arising are recognised in the exchange reserve.

(l) Retirement benefits costs

(i) Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the period in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Payments to Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance are made based on a percentage of the employee's basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme.

(iii) Payments to the state-managed retirement benefit schemes ("PRC Scheme") are charged as expenses when employees have rendered services entitling them to the contributions.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(m) Taxation *(continued)*

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

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

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

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

For the purposes of measuring deferred tax liabilities or deferred tax assets for investment properties that are measured using 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(n) Intangible assets

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

(o) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

(p) Financial instruments

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(p) Financial instruments *(continued)*

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at FVTPL) 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 FVTPL are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into financial assets at FVTPL, available-for-sale financial assets ("AFS financial assets") and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

Effective interest method

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

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

AFS financial assets

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(p) Financial instruments *(continued)*

Financial assets (continued)

AFS financial assets *(continued)*

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

Dividends on AFS equity investments are recognised in profit or loss when the Group's right to receive the dividends is established.

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including loan receivables, trade and bills receivables, deposit and other receivables, finance lease receivables, amount due from customers under construction contracts, pledged bank deposits and cash and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy-impairment of financial assets below).

Financial assets at FVTPL

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(p) Financial instruments *(continued)*

Financial assets (continued)

Financial assets at FVTPL *(continued)*

A financial asset is classified as held for trading if:

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

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

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

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurment recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets and is included in the "fair value changes on financial assets at fair value through profit or loss" in the consolidated statement of profit or loss and other comprehensive income. Fair value is determined in the manner described in Note 5(c) to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(p) Financial instruments *(continued)*

Impairment of financial assets

Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

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

Objective evidence of impairment could include:

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

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period of 30 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an 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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(p) Financial instruments *(continued)*

Impairment of financial assets (continued)

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade 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 AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

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

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

Financial liabilities and equity instruments

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

An equity instrument is any contract that evidences a residual interest in the asset of the Group after deducting all of its liabilities. The Group's financial liabilities are classified into other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(p) Financial instruments *(continued)*

Financial liabilities and equity instruments (continued)

Other financial liabilities

Other financial liabilities including trade and other payables, amounts due to shareholders, convertible bonds and promissory notes are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis other than those financial liabilities designated as at FVTPL.

Convertible bonds

The component parts of the convertible bonds issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is an equity instrument.

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(p) Financial instruments *(continued)*

Financial liabilities and equity instruments (continued)

Convertible bonds *(continued)*

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognised in equity will be transferred to share premium. Where the conversion option remains unexercised at the maturity date of the convertible bonds, the balance recognised in equity will be transferred to retained profits. No gain or loss is recognised in profit or loss upon conversion or expiration of the conversion option.

At initial recognition the derivative component of the convertible bonds is measured at fair value and presented as part of derivative financial instruments. Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the liability component. Transaction costs that relate to the issuance of the convertible bonds are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are charged directly to equity. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible bonds using the effective interest method.

The derivative component is subsequently remeasured in accordance with note 3(p). The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(p) Financial instruments *(continued)*

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(p) Financial instruments *(continued)*

Derecognition (continued)

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, and only 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.

(q) Equity-settled share-based payment transactions

Share options granted to employees

The fair value of services received is determined by reference to the fair value of share options granted at the date of grant and is recognised as an expense in full at the grant date when the share options granted vest immediately, with a corresponding increase in equity (share options reserve).

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

Share options granted to consultants

Share options issued in exchange for services are measured at the fair values of the services received, unless that fair value cannot be reliably measured, in which case the services received are measured by reference to the fair value of the share options granted. The fair values of the services received are recognised as expenses, with a corresponding increase in equity (share options reserve), when the counterparties render services, unless the services qualify for recognition as assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(r) Provisions

Provisions are recognised when the Group and the Company have a present obligation (legal or constructive) as a result of a past event, and it is probable that the Group and the Company will be required to settle that obligation.

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

(s) Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprises of cash in hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

(t) Related party transactions

(a) A person, or a close member of that person's family, is related to the Group if that person:

  (i) has control or joint control over the Group;

  (ii) has significant influence over the Group; or

  (iii) is a member of the key management personnel of the Group or of a parent of the Group;

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(t) Related party transactions *(continued)*

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

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

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

(iii) both entities are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

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

(vi) the entity is controlled or jointly controlled by a person identified in (a); or

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

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

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

(a) that person's children and spouse or domestic partner;

(b) children of that person's spouse or domestic partner; and

(c) dependants of that person or that person's spouse or domestic partner.

A transaction is considered to be a related party transaction when there is a transfer of resources and obligations between related parties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(u) Segment reporting

Operating segments, and the amounts of each segment item reported in the consolidated financial statements, are identified from the financial information provided regularly to the Group's chief operating decision maker for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies which are described in Note 3 to the consolidated financial statements, management has made certain key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that may have a significant risk in causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below:

(a) Income taxes

Significant judgement is required in determining the provision for income tax. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determinations are made.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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

(b) Fair value and impairment assessment on available-for-sale financial assets

The Group follows the guidance of HKAS 39 to determine whether an available-for-sale investments are impaired. This determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance and operational and financing cash flow.

(c) Impairment of intangible assets

Determine whether intangible assets are impaired requires estimation of the value in use. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value.

The carrying amounts of intangible assets at the end of the reporting period were approximately HK$751,421,000 (2015: HK$805,905,000) and no impairment loss has been recognised during year ended 31 December 2016 (2015: Nil).

(d) Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units to which goodwill has been allocated. The value in use calculation requires the Group estimate the future cash flows expected to arise from the cash generating unit and a suitable discount rate in order to calculate the present value.

The carrying amounts of goodwill at the end of the reporting period were approximately HK$498,579,000 (2015: HK$608,960,000) and an impairment loss of approximately HK$110,381,000 was recognised for the year (2015: HK$666,660,000). Details of the impairment loss calculation are provided in Note 21 to the consolidated financial statements.

(e) Finance lease receivables

Finance lease receivables are reviewed periodically to assess whether impairment losses exist. The Group makes judgements as to whether there is any objective evidence that a finance lease receivables is impaired. Historical settlement record is adjusted on the basis of the current observable data. Management reviews the methodology and assumptions used in estimating impairment losses regularly to reduce any difference between loss estimates and actual loss experience.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(a) Categories of financial instruments

	2016 *HK$'000*	2015 *HK$'000*
Financial assets		
Financial assets at FVTPL	–	12,934
Available-for-sale financial assets	**11,047**	10,089
Loan and receivables (including cash and cash equivalents)	**60,943**	105,995
	71,990	129,018
Financial liabilities		
Amortised costs		
Other financial liabilities at amortised cost	**11,499**	15,595
Promissory notes	**95,660**	133,126
Convertible bonds	**466,056**	424,494
	573,215	573,215
At fair value		
Financial liabilities derivatives	**419**	3,400

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(b) Financial risk management objectives and policies

The Group's major financial instruments include financial assets at FVTPL, loan receivables, trade and bills receivables, available-for-sale financial assets, deposits and other receivables, pledged bank deposits, cash and bank balances, trade and other payables, amounts due to shareholders, financial liabilities derivatives, promissory notes and convertible bonds. 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

The Group's activities expose them primarily to the financial risks of changes in foreign exchange risk, interest rate risk and other price risk (the prices of held-for-trading equity investments and available-for-sale financial assets).

Market risk exposures are measured by sensitivity analysis. There has been no change to the Group's exposure to market risk or the manner in which it manages and measures the risk.

(i) Foreign exchange risk

The Group and the Company operates in Hong Kong and the PRC is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to US dollars and Renminbi ("RMB"). Foreign exchange risk arises from the foreign currency denomination of commercial transactions, assets and liabilities. The Group has no significant direct exposure to foreign currencies as most of the commercial transactions, assets and liabilities are denominated in a currency same as the functional currency of each entity of the Group.

(ii) Interest rate risk

The Group is also exposed to cash flow interest rate risk mainly in relation to variable rate loan receivables and bank balances. The Group's exposure to fair values interest rate risk is mainly caused by loan receivables, promissory notes and convertible bonds.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(b) Financial risk management objectives and policies *(continued)*

Market risk (continued)

(ii) Interest rate risk *(continued)*

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for financial instruments at the end of reporting period. The analysis is prepared assuming the structured loan outstanding at the end of the reporting period was outstanding for the whole period. A 100 basis point for the period increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 100 basis points higher/lower and all other variables were held constant, the Group's pre-tax loss for the year would decrease/increase by approximately HK$Nil (2015: HK$664,000).

(ii) Other price risks

The Group is exposed to price risk through its investments in listed equity securities during the reporting period and classified as financial assets at FVTPL and available-for-sale financial assets in consolidated statement of financial position. The management manages this exposure by maintaining a portfolio of investment with different risks.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to price risk at the end of reporting period.

If market prices of held-for-trading equity investments have been 20% higher/lower, loss after tax for the year ended 31 December 2016 and 2015 would decrease/increase by approximately HK$Nil (2015: loss after tax decrease/increase by approximately HK$2,160,000) due to change in fair value of financial assets. AFS financial asset equity reserve would increase/decrease by approximately HK$1,843,000 (2015: HK$2,018,000) due to change in fair value of AFS financial assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(b) 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 perform their obligations at 31 December 2016 and 2015 in relation to each class of recognised financial assets is the carrying amount of those assets as stated in the consolidated statement of financial position. In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group review the recoverable amount of each individual financial lease receivables at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significant reduced.

In respect of finance lease receivables arising from design and provision of energy saving solutions business, the Group has a concentration of credit risk in certain individual customers. At the end of each reporting period, the five largest receivable balances accounted for approximately 58.6% (2015: approximately 59.3%) of the finance lease receivables and the largest finance lease receivable was approximately 21.9% (2015: approximately 28.1%) of the Group's total finance lease receivables. The Directors closely monitor the risk exposure of the customers and collateral and would take appropriate action to ensure the risk exposure is acceptable. The directors are of the view that the expected cash flow of finance lease receivables are sufficient to cover the carrying amount of finance lease receivables as at 31 December 2016 and 2015.

Liquidity risk

In the management of the liquidity risk, the Group monitor and maintain a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The following table details the Group remaining contractual maturity for its financial liabilities based on the agreed repayment terms. 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. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate curve at the end of the reporting period. The table includes both interest and principal cash flows.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(b) Financial risk management objectives and policies *(continued)*

Liquidity risk (continued)

	Weighted average interest rate	Repayable on demand or less than 1 year	1-2 years	2-5 years	Over 5 years	Total undiscounted cash flows	Total carrying amount
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
31 December 2016							
Non-derivative financial liabilities							
Trade and other payables	–	9,709	–	–	–	9,709	9,709
Amounts due to shareholders	–	1,790	–	–	–	1,790	1,790
Promissory notes	15.40	–	127,400	–	–	127,400	95,660
Convertible bonds	16.27	49,733	28,355	85,064	1,001,868	1,165,020	466,056
		61,232	155,755	85,064	1,001,868	1,303,919	573,215
31 December 2015							
Non-derivative financial liabilities							
Trade and other payables	–	14,052	–	–	–	14,052	14,052
Amounts due to shareholders	–	1,543	–	–	–	1,543	1,543
Promissory notes	14.31	45,920	–	139,024	–	184,944	133,126
Convertible bonds	16.48	3,600	77,471	85,064	1,030,222	1,196,357	424,494
		65,115	77,471	224,088	1,030,222	1,396,896	573,215

(c) Fair values of financial instrument

The fair value of financial assets and financial liabilities are determined as follows:

(i) The fair value of financial assets and financial liabilities with standard terms and conditions and traded in active markets are determined with reference to quoted market bid prices and ask prices respectively, and

(ii) The fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models (e.g. discounted cash flow analysis using observable and/or unobservable inputs).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(c) Fair values of financial instrument *(continued)*

The Group uses the following hierarchy for determining and disclosing the fair values of financial instruments:

(i) Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets and liabilities.

(ii) Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

(iii) Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

	Fair value as at				
Financial assets/ financial liabilities	**31 December 2016**	31 December 2015	**Fair value hierarchy**	**Valuation Techniques and key inputs**	**Significant unobservable inputs**
Listed equity securities classified as investment held for trading	**Assets-approximately HK$–**	Assets-approximately HK$12,934,000	Level 1	Quoted bid prices in an active market	N/A
Listed equity securities classified as AFS financial assets	**Assets-approximately HK$11,047,000**	Assets-approximately HK$10,089,000	Level 1	Quoted bid prices in an active market	N/A
Financial liabilities derivatives	**Liabilities approximately HK$419,000**	Liabilities approximately HK$3,400,000	Level 3	Binomial option pricing model Key inputs: Discount rate, share price of the Company, volatility of the Company's share	Discount rate of 17.24% (2015: 18.42%)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(c) Fair values of financial instrument *(continued)*

(i) Assets and liabilities measured at fair value

Fair value hierarchy as at 31 December 2016

	Level 1 *HK$'000*	**Level 2** *HK$'000*	**Level 3** *HK$'000*	**Total** *HK$'000*
Financial assets				
AFS financial assets				
Equity securities listed in Taiwan	**11,047**	**–**	**–**	**11,047**
Financial liabilities				
Financial liabilities derivatives	**–**	**–**	**419**	**419**

Fair value hierarchy as at 31 December 2015

	Level 1 *HK$'000*	Level 2 *HK$'000*	Level 3 *HK$'000*	Total *HK$'000*
Financial assets				
Financial assets at FVTPL				
Equity securities listed in Hong Kong	12,934	–	–	12,934
AFS financial assets				
Equity securities listed in Taiwan	10,089	–	–	10,089
	23,023	–	–	23,023
Financial liabilities				
Financial liabilities derivatives	–	–	3,400	3,400

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

(c) Fair values of financial instrument *(continued)*

(ii) Assets and liabilities for which fair values are disclosed:

As at 31 December 2016

	Level 1 *HK$'000*	**Level 2** *HK$'000*	**Level 3** *HK$'000*	**Total** *HK$'000*
Convertible bonds	**–**	**–**	**403,350**	**403,350**
Promissory notes	**–**	**–**	**91,529**	**91,529**
	–	**–**	**494,879**	**494,879**

As at 31 December 2015

	Level 1 *HK$'000*	Level 2 *HK$'000*	Level 3 *HK$'000*	Total *HK$'000*
Convertible bonds	–	–	382,979	382,979
Promissory notes	–	–	126,363	126,363
	–	–	509,342	509,342

Except as disclosed as above, the Directors consider the carrying amounts of financial assets and financial liabilities recorded at amortised costs in the consolidated financial statements approximates to their fair values.

6. 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 debt, which includes amounts due to shareholders, promissory notes and convertible bonds, net of cash and cash equivalents and total equity comprising issued share capital and reserves. Details of which are disclosed in respective notes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

6. CAPITAL RISK MANAGEMENT *(continued)*

The Directors review the capital structure on a regular basis. As part of this review, the Directors consider the cost of capital and the risks associate with each class of capital, and take appropriate actions to adjust the Group's capital structure.

The Group monitors capital using a gearing ratio, calculated as net debt divided by total capital. Net debt is calculated as amounts due to shareholders, promissory notes and convertible bonds, net of cash and cash equivalents. Total capital is calculated as "total equity" as shown in the consolidated statement of financial position plus net debt. The Group aims to maintain the gearing ratio at a reasonable level. The gearing ratios at the end of the reporting periods were as follows:

	2016	2015
	HK$'000	*HK$'000*
Amounts due to shareholders (Note 32)	**1,790**	1,543
Convertible bonds (Note 33)	**466,056**	424,494
Promissory notes (Note 34)	**95,660**	133,126
Less: cash and bank balances (including pledged bank deposits)	**(34,360)**	(79,710)
Net debt	**529,146**	479,453
Total equity	**554,303**	757,301
Total capital	**1,083,449**	1,236,754
Gearing ratio	**49%**	39%

7. SEGMENT INFORMATION

Information reported to the Directors, being the chief operating decision maker ("CODM") for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided. This is also the basis upon which the Group is organized and specifically focuses on the Group's operating divisions. No operating segments identified by the CODM have been aggregated in arriving at the reportable segments of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

7. SEGMENT INFORMATION *(continued)*

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

- loan financing
- treasury investments
- design and provision of energy saving solutions

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

Segment revenue and results

	Loan financing		Treasury investments		Design and provision of energy saving solutions		Unallocated		Consolidated	
	2016 ***HK$'000***	2015 *HK$'000*	**2016** ***HK$'000***	2015 *HK$'000*	**2016** ***HK$'000***	2015 *HK$'000*	**2016** ***HK$'000***	2015 *HK$'000*	**2016** ***HK$'000***	2015 *HK$'000*
Turnover										
External sales	**4**	940	**–**	–	**22,076**	15,836	**–**	–	**22,080**	16,776
Result										
Segment results	**4**	(1,162)	**(2,181)**	887	**(166,767)**	(752,122)	**–**	–	**(168,944)**	(752,397)
Unallocated corporate expenses							**(12,914)**	(26,877)	**(12,914)**	(26,877)
Gain/(loss) on disposal of subsidiaries							**43,019**	(80,531)	**43,019**	(80,531)
Impairment loss on available-for-sale financial assets							**–**	(9,777)	**–**	(9,777)
Other gains and losses							**(201)**	(2,574)	**(201)**	(2,574)
Fair value change on contingent consideration payables							**–**	93,103	**–**	93,103
Finance costs	**–**	–	**(795)**	(1,672)	**–**	(2,965)	**(81,145)**	(82,833)	**(81,940)**	(87,470)
Loss before taxation									**(220,980)**	(866,523)
Taxation									**19,052**	51,095
Loss for the year									**(201,928)**	(815,428)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

7. SEGMENT INFORMATION *(continued)*

Revenue reported was generated from external customers. There were no inter-segment sales for the year (2015: Nil).

Segment results represent the profit/(loss) by each segment without allocation of centralized administration costs such as certain other income, directors' emoluments, staff salaries, operating lease payments and certain legal and professional fees. This is the measure reported to the CODM for the purpose of resource allocation and assessment of segment performance.

Segment assets and liabilities

	Loan financing		Treasury investments		Design and provision of energy saving solutions		Consolidated	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Assets								
Segment assets	**–**	811	**–**	12,934	**1,313,283**	1,525,929	**1,313,282**	1,539,674
Unallocated corporate assets							**13,602**	14,524
							1,326,885	1,554,198
Liabilities								
Segment liabilities	**–**	–	**–**	–	**6,466**	8,934	**6,466**	8,934
Unallocated corporate liabilities							**766,116**	787,963
							772,582	796,897

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

- all assets are allocated to reportable segments other than corporate financial assets. Goodwill and intangible assets are allocated to design and provision of energy saving solutions.
- all liabilities are allocated to reportable segments other than corporate financial liabilities, deferred tax liabilities, convertible bonds, promissory notes and financial liabilities derivatives.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

7. SEGMENT INFORMATION *(continued)*

Other segment information

The following is an analysis of the Group's other segment information:

	Loan financing		Treasury investments		Design and provision of energy saving solutions		Unallocated		Consolidated	
	2016 HK$'000	2015 HK$'000	**2016 HK$'000**	2015 HK$'000	**2016 HK$'000**	2015 HK$'000	**2016 HK$'000**	2015 HK$'000	**2016 HK$'000**	2015 HK$'000
Interest income on loan receivables	**4**	940	**–**	–	**–**	–	**–**	–	**4**	940
Interest expenses classified in:										
– cost of operation	**–**	(2,102)	**–**	–	**–**	–	**–**	–	**–**	(2,102)
– finance costs	**–**	–	**(795)**	(1,672)	**–**	(2,965)	**(81,145)**	(82,833)	**(81,940)**	(87,470)
Net (loss)/gain on financial assets at fair value through profit of loss	**–**	–	**(2,181)**	886	**–**	–	**–**	–	**(2,181)**	886
Impairment loss on available-for-sale financial assets	**–**	–	**–**	–	**–**	–	**–**	(9,777)	**–**	(9,777)
Gain/(loss) on disposal of subsidiaries	**–**	–	**–**	–	**–**	–	**43,019**	(80,531)	**43,019**	(80,531)
Fair value change on contingent consideration payable	**–**	–	**–**	–	**–**	–	**–**	93,103	**–**	93,103
Capital expenditure										
– others	**–**	–	**–**	–	**(77)**	(776)	**–**	(24)	**(77)**	(800)
Depreciation of property, plant and equipment	**–**	–	**–**	–	**(394)**	(1,600)	**(320)**	(499)	**(714)**	(2,099)
Amortisation of intangible assets	**–**	–	**–**	–	**(54,484)**	(54,484)	**–**	–	**(54,484)**	(54,484)
Impairment loss on goodwill	**–**	–	**–**	–	**(110,381)**	(666,660)	**–**	–	**(110,381)**	(666,660)
Fair value changes on financial liabilities derivatives	**–**	–	**–**	–	**–**	–	**1,451**	(2,574)	**1,451**	(2,574)
Loss on early redemption of convertible bonds	**–**	–	**–**	–	**–**	–	**(1,652)**	–	**(1,652)**	–

Geographical information

The Group operates in three principal geographical areas – the Hong Kong, the People's Republic of China (the "PRC") and Taiwan.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

7. SEGMENT INFORMATION *(continued)*

Geographical information *(continued)*

The Group's revenue from external customers and information about its non-current assets by geographical location are detailed below:

	Revenue from external customers		Non-current assets	
	2016	2015	**2016**	2015
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
The PRC	**22,076**	15,836	**1,267,541**	1,438,888
Hong Kong	**4**	940	**94**	521
Taiwan	**–**	–	**11,047**	10,089
	22,080	16,776	**1,278,682**	1,449,498

Information about major customer

Included in the Group's revenue of approximately HK$22,080,000 (2015: HK$16,776,000), the aggregate revenue of approximately HK$15,437,000 (2015: HK$13,061,000) which arose from two (2015: four) customers of the design and provision of energy saving solutions business which contributed 10% or more to the Group's revenue for the year.

Revenue from major customers, each of them amounted to 10% or more of the Group's revenue, are set out below:

	2016	2015
	HK$'000	*HK$'000*
Customer A	**–**	6,790
Customer B	**–**	1,746
Customer C	**–**	2,344
Customer D	**–**	2,181
Customer E (Note)	**10,264**	–
Customer F (Note)	**5,173**	–

Note: No information on revenue for the year ended 31 December 2015 is disclosed for these customers since none of them contributed 10% or more than to the Group's revenue for the year ended 31 December 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

8. REVENUE

Revenue represents interest income from loan financing and design and provision of energy saving solutions.

An analysis of the Group's revenue by principal activities are as follows:

	2016 **HK$'000**	2015 HK$'000
Loan financing:		
Interest on loan receivables	**4**	940
Design and provision of energy saving solutions:		
Sale of goods	**15,570**	4,724
Sale of goods under finance lease	**6,368**	11,112
Repair and maintenance service fee income	**138**	–
	22,076	15,836
	22,080	16,776

9. OTHER INCOME

	2016 **HK$'000**	2015 HK$'000
Bank interest income	**77**	71
Interest income on finance lease receivables	**2,304**	2,297
Others	**12**	89
	2,393	2,457

10. OTHER GAINS AND LOSSES

	2016 **HK$'000**	2015 HK$'000
Fair value changes on financial liabilities derivatives	**1,451**	(2,574)
Loss on early redemption of convertible bonds	**(1,652)**	–
	(201)	(2,574)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

11. FINANCE COSTS

	2016 **HK$'000**	2015 *HK$'000*
Interest expense on borrowings	**–**	2,965
Imputed interest charged on promissory notes	**13,743**	20,789
Imputed interest charged on convertible bonds	**68,197**	63,716
	81,940	87,470

12. TAXATION

	2016 **HK$'000**	2015 *HK$'000*
Deferred taxation		
Credit for the year (Note 36)	**(19,052)**	(51,095)

The Group is subject to income tax on an entity basis on profit arising in or derived from the jurisdictions which members of the Group are domiciled and operated.

(i) Hong Kong Profit Tax

Hong Kong Profit Tax is calculated at 16.5% of the estimated assessable profit for both years. No provision of profit tax as no assessable profit for the both years.

(ii) PRC Enterprise Income Tax

The subsidiary of the Group established in the PRC is generally subject to PRC Enterprise Income Tax on its taxable income at an income tax rate of 25%. The Company's subsidiary in the PRC is qualified as an High Technology Enterprise from 1 January 2012 and enjoy PRC Enterprise Income Tax rate of 15%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

12. TAXATION *(continued)*

(ii) PRC Enterprise Income Tax *(continued)*

Reconciliation between tax expenses and accounting profit at applicable tax rates:

	2016		2015	
	HK$'000	**%**	*HK$'000*	*%*
Loss before taxation	**(220,980)**		(866,523)	
Tax calculated at the rates applicable to the tax jurisdiction concerned	**(36,462)**	**(16.5)**	(142,977)	(16.5)
Tax effect non-taxable income	**(25,459)**	**(11.5)**	(16,056)	(1.9)
Tax effect non-deductible expenses	**59,433**	**26.8**	148,603	17.1
Tax effect of temporary differences	**(19,052)**	**(8.6)**	(51,095)	(5.9)
Tax effect of unused tax losses not recognised	**2,488**	**1.2**	10,430	1.2
Taxation credit for the year	**(19,052)**	**(8.6)**	(51,095)	(6.0)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

13. LOSS BEFORE TAXATION

The Group's loss for the year is arrived at after charging/(crediting):

	2016	2015
	HK$'000	*HK$'000*
Staff costs (including Directors' remuneration)		
– Directors' fee	**2,883**	4,721
– Salaries, bonus and wages	**8,661**	17,526
– Contribution to retirement benefits schemes	**1,692**	2,468
	13,236	24,715
Amortisation of intangible assets	**54,484**	54,484
Depreciation of property, plant and equipment	**714**	2,099
Cost of inventories sold	**14,703**	12,239
Auditors' remuneration	**850**	850
Equity-settled share based payments	**136**	471
Operating lease payments	**2,501**	6,830
Loss on disposal of property, plant and equipment	**37**	173
Impairment loss on finance lease receivables	**–**	6,955
Exchange loss	**2**	2,738
Impairment loss on goodwill	**110,381**	666,660
Net (loss)/gain on financial assets at fair value through profit and loss:		
Net unrealised (loss)/gain on financial assets at fair value through profit and loss	**(2,036)**	955
Net realised loss on financial assets at fair value through profit or loss	**(145)**	(69)
	(2,181)	886

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

14. DIRECTORS' EMOLUMENTS

The emoluments paid or payable to each of the directors for the years ended 31 December 2016 and 2015 are as follows:

Year ended 31 December 2016

	Directors' fees *HK$'000*	Basic salaries, allowances and other benefits *HK$'000*	Contributions to retirement benefit schemes *HK$'000*	Share-based payment *HK$'000*	Total *HK$'000*
Executive directors					
Mr. So Yuen Chun	–	421	18	–	439
Mr. Chong Kok Leong	1,200	–	–	–	1,200
Ms. Khoo Pui Wan (resigned on 5 July 2016)	123	–	–	–	123
Dr. Li Ai Guo	240	932	96	–	1,268
	1,563	1,353	114	–	3,030
Non-executive directors					
Mr. Lam Kwok Hing, Wilfred	480	–	–	–	480
Mr. Huang Lizhi	240	–	–	–	240
	720	–	–	–	720
Independent non-executive directors					
Mr. Choy Hiu Fai, Eric (appointed on 8 July 2016)	120	–	–	–	120
Ms. Yuen Wai Man	120	–	–	–	120
Mr. Yeung Wai Hung, Peter	120	–	–	–	120
Mr. Chu Ho Miu Hing	240	–	–	–	240
	600	–	–	–	600
Total	2,883	1,353	114	–	4,350

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

14. DIRECTORS' EMOLUMENTS *(continued)*

Year ended 31 December 2015

	Directors' fees *HK$'000*	Basic salaries, allowances and other benefits *HK$'000*	Contributions to retirement benefit schemes *HK$'000*	Share-based payment *HK$'000*	Total *HK$'000*
Executive directors					
Mr. So Yuen Chun	–	1,684	36	–	1,720
Mr. Chong Kok Leong (appointed on 1 October 2015)	300	–	–	–	300
Ms. Khoo Pui Wun (appointed on 31 December 2015)	1	–	–	–	1
Ms. Diana Liu He (resigned on 31 December 2015)	2,800	–	–	471	3,271
Dr. Li Ai Guo	240	924	99	–	1,263
Mr. Cai Wen Wei (resigned on 1 October 2015)	180	634	73	–	887
	3,521	3,242	208	471	7,442
Non-executive directors					
Mr. Lam Kwok Hing, Wilfred	480	–	–	–	480
Mr. Huang Lizhi	240	–	–	–	240
	720	–	–	–	720
Independent non-executive directors					
Ms. Yuen Wai Man	120	–	–	–	120
Mr. Yeung Wai Hung, Peter	120	–	–	–	120
Mr. Chu Ho Miu Hing	240	–	–	–	240
	480	–	–	–	480
Total	4,721	3,242	208	471	8,642

There were no arrangements under which a director waived or agreed to waive any emoluments during the years ended 31 December 2016 and 2015. Apart from Directors, the Group has not classified any other person as chief executives during the years ended 31 December 2016 and 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

15. EMPLOYEES' EMOLUMENTS

(a) Five highest paid individuals

Of the five individuals with the highest emoluments in the Group, four (2015: four) were Directors whose emoluments are included in Note 13. The aggregate of the emoluments in respect of the remaining one (2015: one) individual, included one (2015: one) of senior management, were as follows:

	2016	2015
	HK$'000	*HK$'000*
Salaries, bonus and other benefits	**1,033**	1,195
Contributions to retirement benefits schemes	**16**	18
	1,049	1,213

The emoluments were within the following bands:

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

(b) Senior management of the Company

The emoluments of the senior management of the Company (excluding the Directors as disclosed in note 14) are within the following bands:

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

During the year ended 31 December 2016 and 2015, no emoluments were paid by the Group to any of the highest paid individuals and senior management as an inducement to joining the Group or as compensation for loss of office.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

16. DIVIDEND

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

17. LOSS PER SHARE

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

	2016 ***HK$'000***	2015 *HK$'000*
Loss		
Loss attributable to the owners of the Company for the purpose of basic and diluted loss per share	**(201,928)**	(815,428)

	2016 ***'000***	2015 *'000*
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	**1,922,086**	1,558,275

The denominators used are the same as those detailed above for basic and diluted loss per share.

Note: The computation of diluted loss per share for the year ended 31 December 2016 does not include convertible bonds and share options as the assumed exercise of these convertible bonds and share options has an anti-dilutive effect.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

18. INTANGIBLE ASSETS

	Patents
	HK$'000
Cost	
At 1 January 2015, 31 December 2015, 1 January 2016 and 31 December 2016	**889,901**
Accumulated amortisation and impairment	
At 1 January 2015	29,512
Amortisation expenses	54,484
At 31 December 2015 and 1 January 2016	83,996
Amortisation expenses	54,484
At 31 December 2016	**138,480**
Carrying amounts	
At 31 December 2016	**751,421**
At 31 December 2015	805,905

Note:

(a) The intangible assets represent 7 patents regarding the acquired and owned "Ultra Performance Plant Control System" ("UPPC") for its novelty and industrial applicability in the PRC under the cash generating units of design and provision of energy saving solutions business.

(b) The patents for UPPC system's useful life used in the calculation of amortisation is 16.3 years.

(c) The Group carried out a review of the recoverable amount of the patents which are allocated to energy saving solution business for impairment assessments. The valuation method and other key assumptions used in the value in use for the calculation of recoverable amount are disclosed in note 21 to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

19. PROPERTY, PLANT AND EQUIPMENT

	Leasehold Improvement *HK$'000*	Office Equipment *HK$'000*	Furniture and fixtures *HK$'000*	Computer *HK$'000*	Total *HK$'000*
Cost:					
At 1 January 2015	2,803	1,678	153	1,358	5,992
Additions	–	34	–	766	800
Disposal	(1,722)	(474)	–	(28)	(2,224)
Exchange realignment	(243)	(125)	–	(130)	(498)
At 31 December 2015 and 1 January 2016	838	1,113	153	1,966	4,070
Additions	–	43	–	34	77
Disposal	–	–	–	(487)	(487)
Disposal of a subsidiary	–	(5)	–	(34)	(39)
Exchange realignment	–	(62)	–	(75)	(137)
At 31 December 2016	**838**	**1,089**	**153**	**1,404**	**3,484**
Accumulated depreciation:					
At 1 January 2015	500	63	50	500	1,113
Charge for the year	898	287	23	891	2,099
Eliminated on disposal	(649)	(90)	–	(6)	(745)
Exchange realignment	(189)	(36)	–	(82)	(307)
At 31 December 2015 and 1 January 2016	560	224	73	1,303	2,160
Charge for the year	278	206	21	209	714
Eliminated on disposal	–	–	–	(450)	(450)
Disposal of a subsidiary	–	(5)	–	(14)	(19)
Exchange realignment	–	(17)	–	(47)	(64)
At 31 December 2016	**838**	**408**	**94**	**1,001**	**2,341**
Carrying amounts					
At 31 December 2016	**–**	**681**	**59**	**403**	**1,143**
At 31 December 2015	278	889	80	663	1,910

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

20. CONSTRUCTION IN PROGRESS

	HK$'000
At 1 January 2015	10,531
Additions	8,929
Transfer to cost of sales	(12,221)
Exchange realignment	(609)
As at 31 December 2015 and 1 January 2016	6,630
Additions	8,520
Transfer to cost of sales	(12,699)
Exchange realignment	(250)
At 31 December 2016	**2,201**

Construction in progress as at 31 December 2016 and 2015 mainly comprises the raw material and construction cost for energy saving solution project being constructed in PRC.

21. GOODWILL

	HK$'000
Cost	
At 1 January 2015, 31 December 2015, 1 January 2016, and 31 December 2016	1,275,620
Accumulated impairment	
As at 1 January 2015	–
Impairment for the year	666,660
At 31 December 2015 and 1 January 2016	666,660
Impairment for the year	110,381
At 31 December 2016	**777,041**
Carrying amounts	
As at 31 December 2016	**498,579**
As at 31 December 2015	608,960

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

21. GOODWILL *(continued)*

Particular of impairment testing on goodwill is disclosed below:

Goodwill has been allocated for impairment testing purposes to the following cash generating units ("CGU"):

– Design and provision of energy saving solutions ("Energy Saving Solution Business")

Impairment testing on goodwill

The recoverable amount of the above CGU was determined on the basis of value in use calculations under income approach. The recoverable amount is based on certain assumptions. All value in use calculations use cash flow projections based on the financial budgets approved by the management covering a 10-year period. The pre-tax discount rate used is 16.93% (2015:23.91%) per annum. Cash flows beyond 10-year period are extrapolated using a steady 3% growth rate per annum.

Impairment loss of approximately HK$110,381,000 (2015: HK$666,660,000) was recognised during the year ended 31 December 2016. The management engaged an independent professional valuer to assess the value in use of Weldtech Group as at 31 December 2016 which was used to determine the fore-mentioned impairment amount, after taking into account (i) the economic development of the PRC; (ii) the development of energy saving industry; and (iii) the expected business flow and development plan of the Energy Saving Solutions Business during the valuation process.

As the goodwill has been reduced to its recoverable amount, any adverse change in the assumptions used in the calculation of recoverable amount would result in further impairment loss.

The key assumption used in the value in use calculations are as follows:

Budgeted market share	Average market share in the period immediately before the budget period. The values assigned to the assumption reflect past experience.
Budgeted gross margin	Average gross margins achieved in the period immediately before the budget period which reflect past experience.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

22. LOAN RECEIVABLES

	2016	2015
	HK$'000	*HK$'000*
Fixed-rate loan receivables	**–**	250
Less: accumulated impairment allowance	**–**	–
	–	250

	2016	2015
	HK$'000	*HK$'000*
Carrying amount analysed for reporting purposes:		
Current assets	**–**	163
Non-current assets	**–**	87
	–	250

The maturity profile of the loan receivables at the end of reporting period, analysed by the remaining periods to their contracted maturity, is as follow:

	2016	2015
	HK$'000	*HK$'000*
Receivables:		
Within 3 months	**–**	39
Over 3 months but less than 1 year	**–**	124
Over 1 year but less than 5 years	**–**	87
	–	250

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

22. LOAN RECEIVABLES *(continued)*

Movement in the provision for accumulated impairment allowance on loan receivables is as follow:

	HK$'000
At 1 January 2015	29,032
Disposal of a subsidiary	(29,032)
At 31 December 2015, 1 January 2016 and 31 December 2016	**–**

No impairment was recognised during 31 December 2016 and 2015 in respect of loan receivables.

Notes:

i) During the year ended 31 December 2016, the loan receivables with carrying amount approximately H$224,000 was disposed through disposed of a subsidiary. The details reference to the note 40(a).

ii) The loan receivables outstanding as at 31 December 2015 are denominated in Hong Kong dollars.

iii) As at 31 December 2015, all loan receivables balances are unsecured and carry fixed interest rates at 9% per annum.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

23. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2016	2015
	HK$'000	*HK$'000*
Unlisted equity securities in Hong Kong, net, at cost (Note (i))	**–**	–
Listed equity securities in Taiwan, at fair value (Note (ii))	**11,047**	10,089
Total	**11,047**	10,089

Note:

(i) The unlisted investments represent investments in unlisted equity securities in 5% as at 31 December 2015 of the total outstanding issued shares of a company incorporated in Hong Kong at the end of the reporting period. They are measured at cost less identified impairment losses at the end of the reporting period because their fair values cannot be measured reliably. During the year ended 31 December 2016, the unlisted equity securities in Hong Kong was disposed through disposal of a subsidiary of the Group.

(ii) As at 31 December 2016, there was a gain on fair value change on available-for-sale financial assets with approximately HK$958,000 and recognised in available-for-sale investment reserve.

As at 31 December 2015, there was a significant decline in the market value of certain listed equity securities. The directors consider that such a decline indicates that the listed equity securities have been impaired and an impairment loss of approximately HK$9,777,000 has been recognised in the consolidated statement of profit or loss for the year ended 31 December 2015.

24. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2016	2015
	HK$'000	*HK$'000*
Held-for-trading investments:		
Equity securities listed in Hong Kong	**–**	12,934

Note:

(i) At 31 December 2015, the fair value of the listed equity securities, amounting to approximately HK$12,934,000, was determined based on the quoted market bid prices available on the Stock Exchange. During the year ended 31 December 2016, the financial assets at fair value through profit or loss with carrying amount approximately of HK$9,934,000 was disposed through disposal of a subsidiary. The details refer to the note 40(a).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

25. INVENTORIES

	2016 HK$'000	2015 HK$'000
Raw material	**648**	813

26. TRADE AND BILLS RECEIVABLES

	2016 HK$'000	2015 HK$'000
Trade receivables	**1,784**	123
Bills receivables	**487**	–
	2,271	123

The ageing analysis of trade receivables is based on the invoice date as follows:

	2016 HK$'000	2015 HK$'000
0-90 days	**1,784**	123

According to the credit rating of different customers, the Group allows credit term average of 90 days to its customers. No trade receivables are past due but not impaired for the years ended 31 December 2016 and 2015.

In determining the recoverability of trade receivables, the Group considers any change in credit quality of the trade receivables from the date credit was initially granted up to the end of the reporting period. The impairment loss recognised represents the difference between the carrying amount of the specific trade receivables and the present value of the expected recoverable amount.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

27. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2016 *HK$'000*	2015 *HK$'000*
Prepayments	**903**	962
Receivables from disposal of subsidiaries	**9,200**	9,200
Other receivables	**–**	8
Rental deposit and other deposit	**331**	1,017
	10,434	11,187
Less: accumulated impairment allowance	**(9,200)**	(9,200)
	1,234	1,987

Movement in the provision for impairment allowance on interest receivables and other receivables is as follows:

	Accumulated impairment allowance on interest receivables *HK$'000*	**Accumulated impairment allowance on other receivables** *HK$'000*	**Total** *HK$'000*
At 1 January 2015	88,258	9,200	97,458
Disposal of a subsidiary	(88,258)	–	(88,258)
At 31 December 2015, 1 January 2016 and 31 December 2016	**–**	**9,200**	**9,200**

As at 31 December 2016 and 2015, the receivables from disposal of a subsidiary amounting to HK$9,200,000 was overdue and an impairment allowance of HK$9,200,000 was provided in previous years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

28. FINANCE LEASE RECEIVABLES

	2016	2015
	HK$'000	*HK$'000*
Current finance lease receivables	**8,997**	8,529
Non-current finance lease receivables	**14,291**	15,917
	23,288	24,446

Leasing arrangements

Certain of the Group's energy saving equipments are leased out under finance leases. All leases are denominated in RMB. The average term of finance lease entered into is 5 – 10 years.

Amounts receivable under finance leases

	Minimum lease payments		**Present value of minimum lease payments**	
	2016	2015	**2016**	2015
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Not later than 1 year	**9,620**	9,088	**8,997**	8,529
Later than one year and not later than five years	**17,994**	19,230	**14,076**	14,945
Later than five years	**350**	1,593	**215**	972
	27,964	29,911	**23,288**	24,446
Less: unearned finance income	**(4,676)**	(5,465)	**–**	–
Present value of minimum lease payments receivable	**23,288**	24,446	**23,288**	24,446
Allowance for uncollectible lease payment	**–**	–	**–**	–
	23,288	24,446	**23,288**	24,446

The interest rate inherent in the leases is fixed at the contract date for the entire lease term. The average effective interest rate is approximately 8.45% per annum for the year ended 31 December 2016 (2015: 8.45%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

28. FINANCE LEASE RECEIVABLES *(continued)*

No impairment loss of finance lease receivables have been recognised for the year ended 31 December 2016 (2015: approximately HK$6,955,000 (equivalent to RMB5,683,000)). During the year ended 31 December 2015, certain finance lease receivables of the Group were individually determined to be impaired. The individually impaired receivables related to receivables which the actual performance of energy saving solutions business for certain projects did not meet the expected target therefore, the management assessed that those receivables are not expected to be recovered. The Group does not hold any collateral over these balances.

29. AMOUNTS DUE FROM CUSTOMERS UNDER CONSTRUCTION CONTRACTS

Contracts in progress at the end of the reporting period

	2016	2015
	HK$'000	*HK$'000*
Contract costs incurred plus recognised profit less recognised losses	**6,434**	5,079
Less: Progress billings	**(5,741)**	(4,638)
	693	441

30. CASH AND BANK BALANCES/PLEDGED BANK DEPOSITS

The amounts comprise bank balances held by the Group and short-term bank deposits bearing market interest rates from 0.001% to 0.35% (2015: 0.001% to 0.34%) per annum. The fair value of these assets approximates the corresponding carrying amount.

The Group have United States Dollar ("US$") and Renminbi ("RMB") denominated cash and bank balances, which expose the Group to foreign currency risk. RMB is not freely convertible into other currencies. The carrying amounts of the Group's US$ and RMB denominated monetary assets at the end of the reporting period are as follows:

	2016	2015
	HK$'000	*HK$'000*
US$	**–**	338
RMB	**9,377**	6,842

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

30. CASH AND BANK BALANCES/PLEDGED BANK DEPOSITS *(continued)*

No pledged bank deposits for the group during the year ended 31 December 2016 (2015: HK$236,000). As at 31 December 2015, the pledged bank deposits are pledged to secure for the guarantee deposit of maintenance fund of sale of goods. The pledge will be released upon the warranty period for sales of goods project is expired.

31. TRADE AND OTHER PAYABLES

	2016	2015
	HK$'000	*HK$'000*
Trade payables	**1,219**	2,010
Accrued service fee for acquisition of a subsidiary	**3,871**	3,871
Accrued expenses	**2,562**	5,116
Receipt in advance	**1,738**	4,020
Interest payables	**1,080**	2,200
Other payables	**977**	855
	11,447	18,072

The ageing analysis of trade payables is based on the invoice date as follows:

	2016	2015
	HK$'000	*HK$'000*
0-90 days	**585**	1,132
91-180 days	**17**	154
181-365 days	**71**	37
Over 365 days	**546**	687
	1,219	2,010

Trade payables are interest-free and normally settled on delivery. The average credit period for purchase of goods is 90 days.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

32. AMOUNTS DUE TO SHAREHOLDERS

The amounts due to shareholders were unsecured, interest free and repayable on demand.

33. CONVERTIBLE BONDS

(a) The details of CB I:

The company issued CB I with principal amount of HK$7,986,600 (the "CB Ia") and HK$5,481,000 (the "CB Ib") on 30 June 2014 and 28 July 2014 respectively, and the principal terms of CB I are as follows:

Principal amount of each bond	HK$156,000
Coupon rate	10% per annum, payable annually in arrears
Conversion price	The initial conversion price was the higher of HK$0.018 or the par value of the shares of the Company. As the capital reorganisation became effective on 19 December 2012, the conversion price has been adjusted to HK$0.18 per conversion share As a result of the completion of placement of the first tranche of CB II (as defined in Note 33(b)), the conversion price of CB I has been adjusted from HK$0.18 to HK$0.14 per conversion share and such adjustment became effective on 19 December 2013. Details of the CB II are disclosed in Note 33(b) to the consolidated financial statement. As a result of the completion of placing of all remaining tranches of CB II, the conversion price of CB I has been further adjusted from HK$0.14 to HK$0.10 per conversion share with effect from 17 February 2014.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

33. CONVERTIBLE BONDS *(continued)*

(a) The details of CB I: *(continued)*

CB I entitled the holders to convert them into ordinary shares of the Company at any time between the period commencing from the date of issuance of CB I and its maturity date at the conversion price stated above. If the CB I have not been converted by the maturity date, they will be, at the absolute discretion of the Company, either redeemed by the Company on the maturity date at a redemption amount equal to 100% of the principal amount of such bond, or be converted into ordinary shares of the Company.

CB I with aggregated principal amount of HK$1,566,000 has been converted into 15,660,000 ordinary shares of the Company at HK$0.10 during the year ended 31 December 2015. All outstanding balance of CB I was fully converted during the year ended 31 December 2015.

The CB I contains two components, liability and equity elements. The equity element is presented in equity component of "convertible bond reserve". The effective interest rate of the liability component of CB Ia and CB Ib are 10.466% and 10.482% respectively.

The fair value of the liability component of the CB I was valued by the Directors with reference to a valuation report issued by Roma. The fair value of liability component of the CB I has been calculated by discounting the future cash flows at the market rate. The inputs used in the model in determining the fair value were as follow:

	CB Ia	**CB Ib**
Share price	HK$0.90	HK$0.75
Conversion price	HK$0.18	HK$0.18
Contractual life	2.10 years	2.05 years
Risk-free rate	0.252%	0.285%
Expected dividend yield	0%	0%
Volatility	78.41%	79.40%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

33. CONVERTIBLE BONDS *(continued)*

(a) The details of CB I: *(continued)*

The movements of the liability and equity components of the CB I for the year ended 31 December 2016 and 2015 are set out below:

	Liability component *HK$'000*	Equity component *HK$'000*	Total *HK$'000*
At 1 January 2015	1,558	1,408	2,966
Conversion during the year	(1,562)	(1,408)	(2,970)
Imputed interest charged	79	–	79
Interest paid	(75)	–	(75)
At 31 December 2015, 1 January 2016 and 31 December 2016	**–**	**–**	**–**

The fair value of the CB I has been arrived on the basis of a valuation carried out on the date of issue and at the end of the reporting period by an independent professional valuer. The effective interest rate is 13.72% per annum.

(b) The details of CB II:

On 17 February 2014, the Company issued a new batch of CB II with a principal amount of HK$43,200,000. Each bond entitled the holder to convert to ordinary share of the Company at a conversion price of HK$0.135 per share. The maturity date of the convertible bonds is 31 December 2016.

As at 31 December 2015, the remaining CB II issued in 2014 with principal amount HK$41,850,000 has been converted into 310,000,000 ordinary shares of the Company at HK$0.135. All outstanding balance of CB II was fully converted during the year ended 31 December 2015.

The fair value of the liability component of the CB II was valued by the Directors with reference to a valuation report issued by Roma. The fair value of liability component of the CB II has been calculated by discounting the future cash flows at the market rate. The effective rate of the liability component of CB II on initial recognition is 10.448%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

33. CONVERTIBLE BONDS *(continued)*

(b) The details of CB II: *(continued)*

The inputs used in the model in determining the fair value were as follow:

	CB II
Share price	HK$0.48
Conversion price	HK$0.135
Contractual life	2.88 years
Risk-free rate	0.654%
Expected dividend yield	0%
Volatility	71.17%

The movements of the liability and equity components of the CB II for the year ended 31 December 2016 and 2015 are set out below:

	Liability component *HK$'000*	**Equity component** *HK$'000*	**Total** *HK$'000*
At 1 January 2015	34,323	10,380	44,703
Conversion during the year	(34,982)	(10,380)	(45,362)
Imputed interest charged	659	–	659
At 31 December 2015, 1 January 2016 and 31 December 2016	**–**	**–**	**–**

The fair values of the CB II have been arrived on the basis of a valuation carried out on the date of issue and at the end of the reporting period by an independent professional valuer. The effective interest rate is 14.27% per annum.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

33. CONVERTIBLE BONDS *(continued)*

(c) The details of CB A and CB B:

On 13 June 2014, the Company issued convertible bonds, convertible bonds A ("CB A") and convertible bonds B ("CB B"), with principal amounts of HK$434,980,000 and HK$827,520,000 respectively as a part of the consideration for the acquisition of Weldtech Group. Both convertible bonds are non-interest bearing for the first three years, followed by 3% interest per annum from the fourth to the remaining years. CB A can be converted commencing from the date of issue while CB B can only be converted commencing from 1 July 2015 and can be converted into ordinary shares of the Company at HK$0.8 per share. The maturity date of CB A and CB B fall on the date of 31 December 2023. The effective interest rate of the liability component on initial recognition is 15.99% per annum.

CB A with principal amount approximately of HK$129,434,000 has been converted into 161,792,875 ordinary shares of the Company at HK$0.8 during the year ended 31 December 2015. No principal amount of the CB A were converted into ordinary shares of the Company during the year ended 31 December 2016.

The movements of the liability and equity components of the CB A for the year ended 31 December 2016 and 2015 are set out below:

CB A

	Liability component *HK$'000*	**Equity component** *HK$'000*	**Total** *HK$'000*
At 1 January 2015	149,745	316,996	466,741
Conversion during the year	(48,002)	(94,327)	(142,329)
Imputed interest charged	17,664	–	17,664
31 December 2015 and 1 January 2016	119,407	222,669	342,076
Imputed interest charged	19,513	–	19,513
At 31 December 2016	**138,920**	**222,669**	**361,589**

The CB B with principal amount approximately of HK$187,907,000 has been converted into 234,884,463 ordinary shares of the Company at HK$0.8 during the year ended 31 December 2015. No principal amount of the CB B were converted into ordinary shares of the Company during the year ended 31 December 2016.

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For the year ended 31 December 2016

33. CONVERTIBLE BONDS *(continued)*

(c) The details of CB A and CB B: *(continued)*

The movements of the liability and equity components of the CB B for the year ended 31 December 2016 and 2015 are set out below:

CB B

	Liability component	**Equity component**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2015	284,880	582,153	867,033
Conversion during the year	(70,235)	(132,191)	(202,426)
Imputed interest charged	40,761	–	40,761
31 December 2015 and 1 January 2016	255,406	449,962	705,368
Imputed interest charged	40,847	–	40,847
At 31 December 2016	**296,253**	**449,962**	**746,215**

Interest expenses of CB A and CB B are calculated using the effective interest method by applying the effective interest rate of 15.99% to the liability component. The fair values of the CB A and CB B have been arrived on the basis of a valuation carried out on the date of issue and at the end of reporting period by an independent professional valuer. The effective interest rate is 19.15% per annum.

(d) The details of CB 2015:

On 15 June 2015, the Company issued convertible bonds ("CB 2015") with a principal amount of HK$60,000,000, which is bear 6% coupon rate per annum. The CB 2015 will be matured on 14 June 2017 and can be converted into ordinary shares of the Company at HK$0.89 per share after the date of issue.

Unless previously redeemed, converted, purchased and cancelled, all convertible bonds outstanding on maturity date shall be repaid by the Company at its principal amount outstanding on maturity date plus accrued interest. The bondholders have the right by serving the Company with a written notice to require the Company to redeem all or part of the CB 2015 held by such bondholder for the sum of (i) 100% of the outstanding principal amount of the convertible bonds and (ii) all accrued and unpaid interest.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

33. CONVERTIBLE BONDS *(continued)*

(d) The details of CB 2015: *(continued)*

At the issue date, the CB 2015 were bifurcated into liability, equity and derivative components. The equity element is presented in equity under "Convertible bonds equity reserve" at initial recognition. The effective interest rate of the liability component on initial recognition is 17.81% per annum. The redemption option derivative is measured at fair value with the changes in fair value recognised in the consolidated statement of profit or loss.

No principal amount of the CB 2015 were converted into ordinary shares of the Company during the year ended 31 December 2016 and 2015.

During the year ended 31 December 2016, the aggregate principal amount of HK$27,000,000 of CB 2015 had been redeemed.

The movements of liability and equity components of the CB 2015 for the year ended 31 December 2016 and 2015 are set out below:

	Liability Component *HK$'000*	**Equity Component** *HK$'000*	**Financial liabilities derivatives** *HK$'000*	**Total** *HK$'000*
At 1 January 2015	–	–	–	–
Issued during the year	47,078	10,296	826	58,200
Deferred tax arising on issue of CB	–	(1,699)	–	(1,699)
Changes in fair value	–	–	2,574	2,574
Imputed interest charged	4,553	–	–	4,553
Interest paid	(1,950)	–	–	(1,950)
At 31 December 2015 and 1 January 2016	49,681	8,597	3,400	61,678
Redemption	(23,818)	(3,868)	(1,530)	(29,216)
Changes in fair value	–	–	(1,451)	(1,451)
Imputed interest charged	7,837	–	–	7,837
Interest paid	(2,817)	–	–	(2,817)
At 31 December 2016	**30,883**	**4,729**	**419**	**36,031**

Interest expenses of CB 2015 is calculated using the effective interest method by applying the effective interest rate of 20.12% to the liability component. The fair value of CB 2015 has been arrived on the basis of a valuation carried out on the date of issue and at the end of reporting period by independent professional valuer. The effective interest rate is 17.24% per annum.

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34. PROMISSORY NOTES

The movement of the carrying amount of the promissory notes A ("PN A") and PN 2015 during the year ended 31 December 2016 and 2015 is set out below:

	PN A *HK$'000* Note (ii)	PN 2015 *HK$'000* Note (i)	Total *HK$'000*
At 1 January 2015	192,891	–	192,891
Issuances of promissory note	–	41,000	41,000
Interest charged calculated at an effective interest rate of PN A 15.4%/PN 2015 12%	19,117	1,672	20,789
Disposal of a subsidiary (Note 40(d))	(121,554)	–	(121,554)
At 31 December 2015 and 1 January 2016	90,454	42,672	133,126
Interest charged calculated at an effective interest rate of PN A 15.4%/PN 2015 12%	12,948	795	13,743
Disposal of a subsidiary (Note 40(a))	(7,742)	(43,467)	(51,209)
At 31 December 2016	**95,660**	**–**	**95,660**

Note:

(i) On 6 August 2015, 17 August 2015, 2 September 2015, 7 September 2015 and 2 October 2015, The BLA (Asia), a wholly-owned subsidiary of the Company, issued five Promissory Notes ("PN 2015") with a principal amount of HK$11,200,000, HK$11,200,000, HK$11,200,000, HK$1,120,000 and HK$11,200,000 respectively. PN 2015 mature on 6 August 2016, 17 August 2016, 2 September 2016, 7 September 2016 and 2 October 2016 respectively. The effective interest rate is 12% per annum. PN 2015 was disposed through disposal of a subsidiary of the Group. The details reference to the note 40(a).

(ii) On 13 June 2014, the Company issued PN A with a principal amount of HK$474,400,000 as a part of consideration for acquiring the entire issued share capital of Weldtech Technology Co. Limited. The fair value of PN A was approximately HK$247,295,000 on 13 June 2014. PN A is non-interest bearing and mature on 31 December 2018. The effective interest rate on initial recognition is 15.4% per annum. The principal of PN A amounting of HK$11,623,540 were disposed through disposal of a subsidiary of the Group. The details reference to the note 40(a).

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34. PROMISSORY NOTES *(continued)*

As at 31 December 2016, the fair value of PN A of the Group were approximately HK$91,529,000 (2015: HK$83,691,000). The fair value of PN A has been arrived on the basis of a valuation carried out on the date of issue and at the end of reporting period by on independent professional valuer. The effective interest rate is 17.98% per annum.

As at 31 December 2015, the fair value of PN 2015 of the Group were approximately HK$42,672,000.

35. CONTINGENT CONSIDERATION PAYABLES

	2016	2015
	HK$'000	*HK$'000*
At 1 January	**–**	93,103
Less: fair value change on contingent consideration payables	**–**	(93,103)
At 31 December	**–**	–

Pursuant to the completion of the acquisition of the Weldtech Group on 13 June 2014, as a part of consideration, the Group and the Company liable to settle the contingent consideration by issuance of PN B and PN C with aggregate principal amount of HK$560,000,000 to the vendors. The PN B and PN C are subject to target profit guarantee provided by the vendors under the Sale and Purchase Agreement. If the audited consolidated profit before tax of the Weldtech Technology for the year ended 2015 and 2014 falls below HK$120,000,000 and HK$160,000,000 respectively, all of the PN B and PN C shall become null and void respectively for year ended 31 December 2015 and 2014. The fair value of the contingent consideration payables were in aggregate amount approximately of HK$145,959,000 at the date of the acquisition.

As at 31 December 2015, since the profit guarantee for 2015 is not meet and all the PN C have and become void and no contingent consideration payables outstanding by the Company as at 31 December 2016.

The fair values were determined with reference to the valuations as at those dates performed by an independent valuers. The valuations was calculated based on the expected cash flow approach which determined the expected value probability weighted discount cash flow at 18.43%.

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36. DEFERRED TAX LIABILITIES

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

	Intangible assets *HK$'000*	Convertible bonds *HK$'000*	Total *HK$'000*
At 1 January 2015	129,058	136,600	265,658
Issuance of Convertible bonds	–	1,699	1,699
Conversion of Convertible bonds	–	(32,853)	(32,853)
Credit to profit or loss (Note 12)	(8,172)	(10,070)	(18,242)
At 31 December 2015 and 1 January 2016	120,886	95,376	216,262
Credit to profit or loss (Note 12)	(8,173)	(10,879)	(19,052)
At 31 December 2016	**112,713**	**84,497**	**197,210**

At the end of the reporting period, the Group has estimated tax losses of approximately HK$42,431,000 (2015: HK$178,747,000) available for offset against future profits. No deferred tax assets has been recognised as it is uncertain that there will be sufficient future profits available to utilise the balances. The unrecognised tax losses may be carried forward indefinitely.

37. SHARE CAPITAL

	Number of shares		Share capital	
	2016 ***'000***	2015 *'000*	**2016** ***HK$'000***	2015 *HK$'000*
Issued and fully paid:				
At the beginning of the year	**1,922,086**	1,025,749	**1,210,498**	667,298
Issuance of shares upon placing (Note (i), (ii) and (iii))	**–**	174,000	**–**	150,113
Issuance of shares upon conversion of convertible bonds (Note 33)	**–**	722,337	**–**	393,087
At the end of the year	**1,922,086**	1,922,086	**1,210,498**	1,210,498

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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37. SHARE CAPITAL *(continued)*

Note:

(i) CB Placing 2015, Top-up Placing and Top-up Subscription

On 2 June 2015, the Company and Convoy Investment Services Limited ("Convoy") entered into a placing agreement pursuant to which Convoy conditionally agreed to place, on a best-effort basis, the convertible bonds in the principal amount of up to HK$60,000,000 (the "CB 2015") to not less than six placees and the Company conditionally agreed to issue the CB 2015 (the "CB Placing 2015").

The CB 2015 in the aggregated principal amount of HK$60,000,000 were successfully placed by Convoy to not less than six placees who and whose respective ultimate beneficial owners were third parties independent of and not connected with the Company and its connected persons (as defined under the Listing Rules).

The maturity date of CB 2015 is 14 June 2017, which is the second anniversary of the issue date of the CB 2015. The CB 2015 bear interest at the rate of 6% per annum on the outstanding principal amount thereof.

Based on the initial conversion price of HK$0.89 per conversion share, a maximum of 67,415,730 new Shares will be allotted and issued upon exercise of the CB 2015.

In addition, on 2 June 2015, the Company entered into a placing and subscription agreement with CIAM and Convoy pursuant to which (i) CIAM agreed to place, through Convoy, on a best-effort basis, an aggregate of up to 100,000,000 Shares held by CIAM (the "Top-up Placing Share(s)"), at the placing price of HK$0.89 per Top-up Placing Share (the "Top-up Placing"); and (ii) CIAM agreed to subscribe for up to 100,000,000 Shares (the "Top-up Subscription Share(s)") at the subscription price of HK$0.89 per Top-up Subscription Share (the "Top-up Subscription").

The completion of the Top-up Placing took place on 5 June 2015 and an aggregate of 100,000,000 Top-up Placing Shares were successfully placed to not less than six placees who and whose ultimate beneficial owners were third parties independent of and not connected with the Company and its connected persons (as defined under the Listing Rules) at the placing price of HK$0.89 per Top-up Placing Share. The Top-up Subscription took place on 15 June 2015 and an aggregate of 100,000,000 Top-up Subscription Shares were allotted and issued to CIAM at the subscription price of HK$0.89 per Top-up Subscription Share.

The gross proceeds from CB Placing 2015 and Top-up Placing were approximately HK$149,000,000 and the net proceeds after deducting all relevant expenses were approximately HK$143,000,000. The net proceeds were used (i) as to approximately HK$19,867,000 for the acquisition of Infodisc Shares and (ii) as to approximately HK$123,133,000 for the repayment of outstanding indebtedness.

For further details, please refer to the announcements of the Company dated 3 June 2015 and 15 June 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

37. SHARE CAPITAL *(continued)*

Note: *(continued)*

(ii) Placing I

On 21 July 2015, the Company entered into a placing agreement with RHB OSK Securities Hong Kong Limited ("RHB") pursuant to which the Company agreed to place through RHB an aggregate of up to 50,000,000 new Shares at the placing price of HK$0.89 per placing share (the "Placing I").

Completion of the Placing I took place on 30 July 2015 and a total of 50,000,000 new Shares have been successfully placed to not less than six placees who and whose ultimate beneficial owners were third parties independent of and not connected with the Company and its connected persons (as defined under the Listing Rules).

The gross proceeds from Placing I were approximately HK$44,500,000 and the net proceeds after deducting all relevant expenses were approximately HK$42,900,000. The net proceeds were used (i) as to approximately HK$17,903,000 for repayment of outstanding indebtedness and (ii) as to approximately HK$24,997,000 for general working capital of the Group.

For further details, please refer to the announcements of the Company dated 21 July 2015 and 30 July 2015.

(iii) Placing II

On 10 August 2015, the Company entered into a placing agreement with RHB pursuant to which the Company agreed to place through RHB, on a best-effort basis, an aggregate of up to 24,000,000 new Shares, to not less than six placees who and whose ultimate beneficial owners are third parties independent of and not connected with the Company and its connected persons (as defined under the Listing Rules), at the placing price of HK$0.89 per placing share (the "Placing II").

Completion of the Placing II took place on 27 August 2015 and a total of 24,000,000 new Shares have been successfully placed to not less than six placees who and whose ultimate beneficial owners were third parties independent of and not connected with the Company and its connected persons (as defined under the Listing Rules).

The gross proceeds and the net proceeds from the Placing II were approximately HK$21,360,000 and approximately HK$20,550,000, respectively. The net proceeds have been reserved for general working capital of the Group and will be used to fund future investment when suitable opportunities arise.

For further details, please refer to the announcements of the Company dated 10 August 2015 and 27 August 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

38. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	2016 *HK$'000*	2015 *HK$'000*
Non-current assets		
Property, plant and equipment	**94**	414
Interests in subsidiaries	**390**	392
	484	806
Current assets		
Prepayments, deposits and other receivables	**–**	126
Amounts due from subsidiaries	**1,117,992**	1,273,334
Cash and bank balances	**260**	678
	1,118,252	1,274,138
Current liabilities		
Other payables and accruals	**2,509**	5,160
Convertible bonds	**30,883**	–
Finance liabilities derivatives	**419**	3,400
Amount due to a shareholder	**390**	195
Amount due to a subsidiary	**–**	56
	34,201	8,811
Net current assets	**1,084,051**	1,265,327
Total assets less current liabilities	**1,084,535**	1,266,133

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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

		2016	2015
		HK$'000	*HK$'000*
Non-current liabilities			
Convertible bonds		**435,173**	424,494
Promissory notes		**95,660**	82,891
Deferred tax liabilities		**349**	1,699
Contingent consideration payables		**–**	–
		531,182	509,084
Net assets		**553,353**	757,049
Capital and reserves			
Share capital	37	**1,210,498**	1,210,498
Reserves		**(657,145)**	(453,449)
Total equity		**553,353**	757,049

Approved and authorised for issue by the board of directors on 31 March 2017 and signed on its behalf by:

Dr. Li Ai Guo
Director

Mr. Chong Kok Leong
Director

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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

Movements of the Company's reserves

	Share option reserve *HK$'000*	Convertible bond reserve *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*
At 1 January 2015	–	910,937	(261,486)	649,451
Loss for the year	–	–	(873,662)	(873,662)
Equity-settled share option arrangement (Note 44)	471	–	–	471
Issuance of convertible bonds (Note 33(d))	–	10,296	–	10,296
Deferred tax arising on issue of convertible bonds (Note 36)	–	(1,699)	–	(1,699)
Issuance of shares upon conversion of convertible bonds (Note 33)	–	(238,306)	–	(238,306)
At 31 December 2015 and 1 January 2016	471	681,228	(1,135,148)	(453,449)
Loss for the year	–	–	(203,832)	(203,832)
Equity-settled share option arrangement (Note 44)	136	–	–	136
Early redemption of convertible bonds (Note 33(d))	–	(3,868)	3,868	(–)
At 31 December 2016	**607**	**677,360**	**(1,335,112)**	**(657,145)**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

39. SUBSIDIARIES

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

Name of companies	Place of incorporation/ operation	Issued and fully paid-up share/ registered capital	Percentage of equity attributable to the Company				Principal activities
			2016		2015		
			Direct	Indirect	Direct	Indirect	
Total Global Holding Limited	BVI	US$50,000	**100%**	**–**	100%	–	Inactive
Weldtech Technology Co. Limited	Hong Kong	HK$1,724	**–**	**100%**	–	100%	Investment holding
濠信節能科技(上海)有限公司 (Haoxin Technology (Shanghai) Company Limited)	PRC	Paid-up capital US$8,880,000	**–**	**100%**	–	100%	Design and provision of energy saving solutions
Blossom Ally Limited (Note (i))	BVI	US$1	**100%**	**–**	100%	–	Investment holding
The Building and Loan Agency (Asia) Limited (Note (ii))	Hong Kong	HK$2	**–**	**–**	100%	–	Money lending
Alpha Gain Limited (Note (iii))	Hong Kong	HK$2	**–**	**–**	100%	–	Inactive
United Warrior Limited (Note (iii))	BVI	US$1	**–**	**–**	100%	–	Inactive
Diamond Team Limited (Note (iii))	BVI	US$1	**–**	**–**	100%	–	Inactive

The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results for the year or formed a substantial portion of the net 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 had any debt securities at the end of the year or at any time during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

39. SUBSIDIARIES *(continued)*

Note:

(i) Blossom Ally Limited was incorporated on 8 July 2015 and the Group acquired 100% equity interest on 3 August 2015.

(ii) On 4 March 2016, the Group entered into a sale and purchase agreement to dispose of its 100% equity interest in The Building and Loan Agency (Asia) Limited which has an equity interests in Assets Talent Limited and Monarch Orchid Limited.

(iii) On 15 April 2016, the Group entered into a sale and purchase agreement to dispose of its 100% equity interest in Alpha Gain Limited, United Warrior Limited and Diamond Team Limited.

40. DISPOSAL OF SUBSIDIARIES

(a) On 4 March 2016, the Group entered into a sale and purchase agreement to dispose of its 100% equity interest in The Building and Loan Agency (Asia) Limited which has an equity interests in Assets Talent Limited and Monarch Orchid Limited to an independent third party for cash consideration of HK$1,200,000. The disposal was completed on 4 March 2016. Summary of the effects of the disposal is as follows:

	HK$'000
Net liabilities disposed of:	
Property, plant and equipment (Note 19)	20
Financial assets at fair value through profit or loss	9,934
Prepayments, deposits and other receivables	371
Cash and bank balances	123
Loan receivables	224
Accrual and other payables	(1,376)
Promissory notes (Note 34)	(51,209)
Net liabilities disposed of	(41,913)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended 31 December 2016

40. DISPOSAL OF SUBSIDIARIES *(continued)*

(a) *(continued)*

Gain on disposal of subsidiaries

	HK$'000
Consideration received	1,200
Net liabilities disposal of	41,913
Gain on disposal	43,113

Net cash inflow from disposal of subsidiaries

	HK$'000
Consideration received in cash and cash equivalents	1,200
Less: cash and cash equivalent balances disposed of	(123)
Net cash inflow from disposal of subsidiaries	1,077

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

40. DISPOSAL OF SUBSIDIARIES *(continued)*

(b) On 15 April 2016, the Group entered into a sale and purchase agreement to dispose of its 100% equity interest in Alpha Gain Limited to an independent third party for cash consideration of HK$188,000. The disposal was completed on 17 May 2016. Summary of the effects of the disposal is as follows:

	HK$'000
Net assets disposed of:	
Prepayments, deposits and other receivables	230
Cash and bank balances	10
Accrual and other payables	(3)
Net assets disposed of	237

Loss on disposal of subsidiary

	HK$'000
Consideration received	188
Net assets disposal of	(237)
Loss on disposal	(49)

Net cash inflow from disposal of subsidiary

	HK$'000
Consideration received in cash and cash equivalents	188
Less: cash and cash equivalent balances disposed of	(10)
Net cash inflow from disposal of subsidiary	178

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

40. DISPOSAL OF SUBSIDIARIES *(continued)*

(c) On 15 April 2016, the Group entered into a sale and purchase agreement to dispose of its 100% equity interest in Diamond Team Limited to an independent third party for cash consideration of HK$1,000. The disposal was completed on 17 May 2016. Summary of the effects of the disposal is as follows:

	HK$'000
Net assets disposed of	–

Loss on disposal of subsidiary

	HK$'000
Consideration received	1
Net assets disposal of	–
Gain on disposal	1

Net cash inflow from disposal of subsidiary

	HK$'000
Consideration received in cash and cash equivalents	1
Less: cash and cash equivalent balances disposed of	–
Net cash inflow from disposal of subsidiary	1

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

40. DISPOSAL OF SUBSIDIARIES *(continued)*

(d) On 15 April 2016, the Group entered into a sale and purchase agreement to dispose of its 100% equity interest in United Warrior Limited to an independent third party for cash consideration of HK$1,000. The disposal was completed on 17 May 2016. Summary of the effects of the disposal is as follows:

	HK$'000
Net assets disposed of:	
Prepayments, deposits and other receivables	47
Net assets disposed of	47

Loss on disposal of subsidiary

	HK$'000
Consideration received	1
Net assets disposal of	(47)
Loss on disposal	(46)

Net cash inflow from disposal of subsidiary

	HK$'000
Consideration received in cash and cash equivalents	1
Less: cash and cash equivalent balances disposed of	–
Net cash inflow from disposal of subsidiary	1

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

40. DISPOSAL OF SUBSIDIARIES *(continued)*

(e) On 10 June 2015, the Group entered into sale and purchase agreement ("S&P") to dispose of its 100% equity interest in Revelry Gains Limited ("Revelry Gains") to an independent third party (the "Purchaser") for cash consideration of HK$1,000,000. The disposal was completed on 11 June 2015. Summary of the effects of the disposal is as follows:

	HK$'000
Net assets disposed of:	
Prepayments, deposits and other receivables	1,405
Loan receivables	201,680
Promissory notes (note 34)	(121,554)
Net assets disposed of	81,531

Loss on disposal of subsidiary

	HK$'000
Consideration received	1,000
Net assets disposal of	(81,531)
Loss on disposal	(80,531)

Net cash inflow from disposal of subsidiary

	HK$'000
Consideration received in cash and cash equivalents	1,000
Less: cash and cash equivalent balances disposed of	–
Net cash inflow from disposal of subsidiaries	1,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

40. DISPOSAL OF SUBSIDIARIES *(continued)*

(e) *(continued)*

Before considering the fair value effect of the promissory notes, the disposed aggregate principal amounts of promissory notes were approximately HK$203,108,000 which formed part of the liabilities of Revelry Gains. After taken up the fair value effect the carrying amounts of disposed promissory notes were approximately of HK$121,554,000, and therefore, the Group recorded a loss approximately HK$80,531,000 as a result of the Disposal. Such loss had no material cash flow effect to the Company during the year ended 31 December 2015.

41. CAPITAL COMMITMENT

Capital commitments at each of the end of the reporting date contracted but not provided for in the consolidated financial statements were as follows:

	2016 ***HK$'000***	2015 *HK$'000*
Commitments for the construction contract	**52**	5,213

42. OPERATING LEASES

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases for certain of its office premises as follows:

	2016 ***HK$'000***	2015 *HK$'000*
Within one year	**470**	2,720
In the second to fifth years inclusive	**–**	395
	470	3,115

Leases are negotiated and rental are fixed for term of 1 years (2015: 1 to 2 years).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

43. RETIREMENT BENEFITS PLANS

The Group participate in a defined contribution scheme which is registered under a Mandatory Provident Fund Scheme (the "MPF Scheme") established under the Mandatory Provident Fund Schemes Ordinance in December 2000. The assets of the scheme are held separately from those of the Group and the Company, in funds under the control of trustee.

For members of the MPF Scheme, the Group and the Company contribute 5% or HK$1,500 in maximum of relevant payroll costs to the scheme, which contribution is matched by employees.

Pursuant to the regulations of the relevant authorities in the PRC, the Group participates in the PRC Schemes whereby the Group is required to contribute to the PRC Schemes to fund the retirement benefits of the eligible employees. Contributions made to the PRC Schemes are calculated based on certain percentages of the applicable payroll costs as stipulated under the requirements in the PRC. The relevant authorities of the PRC are responsible for the entire pension obligations payable to the retired employees. The only obligation of the Group with respect to the PRC Schemes is to pay the ongoing required contributions under the PRC Schemes.

The retirement benefit schemes contribution represents gross contributions by the Group to the PRC Schemes operated by the relevant authorities of the PRC.

The total cost charged to the profit or loss of approximately HK$62,000 (2015: HK$121,000) represents contributions paid and payable to the MPF Scheme by the Group in respect of the current year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

44. SHARE OPTION SCHEME

On 22 May 2008, the Company adopted a share option scheme (the "Share Option Scheme"), pursuant to which the board of directors of the Company (the "Board") may, at its discretion, grant options to the eligible participants (as defined in the Share Option Scheme) including employees, directors, shareholders and other person whom the Board considers, in its sole discretion, has contributed or will contribute to the Group. The subscription price for the shares under the Share Option Scheme will be a price determined by the Board in its absolute discretion but shall not be lower than the higher of (i) the closing price of the shares as stated in the Stock Exchange's daily quotation sheet on the date of grant, which must be a business day; and (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the 5 trading days immediately preceding the date of grant. The maximum number of shares which may be issued upon exercise of all outstanding options granted under the Share Option Scheme and any other share option scheme(s) of the Company must not exceed 30% of the total number of shares in issue from time to time. The number of shares in respect of which options may be granted to any individual in any 12-month period is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to a director, chief executive or substantial shareholder or any of their respective associates in excess of 0.1% of the Company's share capital and with a value in excess of HK$5,000,000 must be approved by the Company's shareholders. Options granted under the Share Option Scheme will entitle the holder to subscribe for shares from the date of grant up to the 10th anniversary of the date of grant. A nominal consideration of HK$1 is payable on acceptance of the grant of an option.

On 22 January 2015 and 31 December 2015, a total of 8,000,000 and 1,000,000 options were granted to Directors of the Group pursuant to the Share Option Scheme. The estimated fair value of share options granted on 22 January 2015 and 31 December 2015 are approximately HK$607,000 and HK$100,000 respectively. An amount of approximately HK$136,000, which has been recognised in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2016 (2015: HK$471,000). The fair value of the share options is determined by Grant Sherman Appraisal Limited.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

44. SHARE OPTION SCHEME *(continued)*

The inputs into the model as grant date were as follows:

Grant date share price	HK$0.405 – 0.415
Weighted average share price:	HK$0.414
Weighted average exercise price:	HK$1.156
Expected volatility:	62.14% – 66.07%
Risk-free rate:	0.7% – 0.9%
Expected dividend yield:	0%
Option period:	3 – 4 years
Fair value per option	HK$0.0683 – 0.1003

Expected volatility was determined by using the historical volatility of the Company's share price over the expected option period. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions and behavioral considerations.

As the fair value of the services received could not be estimated reliably by the Company, the fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on Binomial Option Pricing Model. The contractual life of the share option is used as an input into this mode. Expectations of early exercise multiple are incorporated into the Binomial Option Pricing Model.

In respect of the share options exercised during the year, the weighted average share price at dates of exercise is HK$1.2 (2015: HK$1.156).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

44. SHARE OPTION SCHEME *(continued)*

Details of specific categories of options are as follows:

Date of grant	Vesting period	Exercise period	Exercise price
22 January 2015	One year from the date of grant	22 January 2016 to 22 January 2018	HK$0.90
22 January 2015	Two year from the date of grant	22 January 2017 to 22 January 2019	HK$1.50
31 December 2015	One year from the date of grant	1 January 2017 to 31 December 2018	HK$0.80

Details of the terms and movements of the share options granted pursuant to the Share Option Scheme are as follows:

2016

Category of grantee	Date of grant	Exercise price per share	Expiry date	Balance as at 1.1.2016	Grant during the year	Exercise during the year	Lapsed during the year	Balance as at 31.12.2016
Director								
Ms. Khoo Pui Wan (resigned on 5 July 2016)	31.12.2015	HK$0.80	31.12.2018	1,000,000	–	–	1,000,000	**–**
Employee	22.1.2015	HK$0.90	22.1.2018	4,000,000	–	–	–	**4,000,000**
	22.1.2015	HK$1.50	22.1.2019	4,000,000	–	–	–	**4,000,000**
				9,000,000	–	–	1,000,000	**8,000,000**
Exercisable at the end of the year								**4,000,000**
Weighted average exercise price *(HK$)*				1.156	–	–	0.8	**1.2**
Weighted average remaining contractual life (years)								**1.6**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

44. SHARE OPTION SCHEME *(continued)*

2015

Category of grantee	Date of grant	Exercise price per share	Expiry date	Balance as at 01.01.2015	Grant during the year	Exercise during the year	Balance as at 31.12.2015
Director							
Ms. Khoo Pui Wun	31.12.2015	HK$0.800	31.12.2018	–	1,000,000	–	1,000,000
Employee							
Ms. Diana Liu He	22.01.2015	HK$0.900	22.01.2018	–	4,000,000	–	4,000,000
	22.01.2015	HK$1.500	22.01.2019	–	4,000,000	–	4,000,000
				–	9,000,000	–	9,000,000
Exercisable at the end of the year							–
Weighted average exercise price *(HK$)*				–	1.156	–	1.156
Weighted average remaining contractual life (years)							2.6

45. MATERIAL RELATED PARTIES TRANSACTIONS

Save as disclosed elsewhere in the consolidated financial statements, during the year the Group had the following transactions with related parties.

(a) Income or expense items:

	2016 **HK$'000**	2015 HK$'000
Interest charged for a loan from a shareholder	**–**	675
Rental expenses paid to a shareholder	**52**	756
Consultancy fee paid to a shareholder	**–**	1,224

The Directors are of the opinion that the transactions were entered into on normal commercial terms and in the ordinary course of the Group's business.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

45. MATERIAL RELATED PARTIES TRANSACTIONS *(continued)*

(b) Compensation of key management personnel

The key management of the Group comprises all Directors, details of their remuneration are disclosed in Note 14 to the consolidated financial statements. The remuneration of Directors is determined by the Remuneration Committee having regard to the performance of individuals and market trends.

None of the above related party transactions falls under the definition of connected transaction or continuing connected transaction as defined in Chapter 14A of the Listing Rules.

46. PLEDGE OF ASSETS

No pledged bank deposits of the Group for the year ended 31 December 2016 (2015: approximately HK$236,000) as the security deposit for the warranty fund of sale of goods.

47. EVENTS AFTER THE REPORTING PERIOD

On 29 December 2016, the Company entered into the Placing Agreement with the Placing Agent pursuant to which the Company agreed to place through the Placing Agent, on a best-effort basis, an aggregate of up to 384,416,000 Placing Shares, to Placees who and whose ultimate beneficial owners are third parties independent of and not connected with the Company and its connected persons, at the Placing Price of HK$0.36 per Placing Share.

On 11 January 2017, the Company and the Placing Agent entered into a supplemental agreement (the "Supplemental Agreement") to the Placing Agreement pursuant to which the Company and the Placing Agreement agreed to amend the Placing Agreement to remove the requirement that each Placee shall not become a substantial shareholder of the Company as a result of the Placing.

On 20 January 2017, all the conditions precedent to the Placing have been fulfilled, and the completion of the Placing took place. An aggregate of 384,416,000 Placing Shares, representing approximately 16.67% of the issued share capital of the Company as at the date of this announcement immediately after the completion of the Placing, have been successfully placed to a Placee at the Placing Price of HK$0.36 per Placing Share. The net proceeds from the Placing are approximately HK$133,900,000.

48. APPROVAL FOR CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 31 March 2017.

SUMMARY OF FINANCIAL INFORMATION

A summary of the results and of the assets and liabilities of the Group for the five financial years ended 31 December 2016, as extracted from the audited consolidated financial statements, is as set out below.

RESULTS

	Year ended 31 December				
	2016	2015	2014	2013	2012
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	**22,080**	16,776	16,423	47,046	42,224
(Loss)/profit for the year attributable to owners of the Company	**(201,928)**	(815,428)	(243,371)	(91,105)	10,324
	HK cents	*HK cents*	*HK cents*	*HK cents*	*HK cents*
(Loss)/earnings per share					
– Basic	**(10.51)**	(52.33)	(29.59)	(20.88)	2.37
– Diluted	**(10.51)**	(52.33)	(29.59)	(20.88)	2.34

ASSETS AND LIABILITIES

	At 31 December				
	2016	2015	2014	2013	2012
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Total assets	**1,326,885**	1,554,198	2,431,539	397,933	453,160
Total liabilities	**(772,582)**	(796,897)	(1,172,414)	(74,615)	(52,722)
Net assets	**554,303**	757,301	1,259,125	323,318	400,438