



中金投集团

China Financial Services Holdings Ltd

CHINA FINANCIAL SERVICES HOLDINGS LIMITED

(Incorporated in Hong Kong with limited liability)

(Stock code: 605)

2014 Annual Report





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CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Luo Rui (*Chief Executive Officer*)
Madam Guan Xue Ling
Mr. Cheung Chai Hong

Non-Executive Directors

Mr. Cheung Siu Lam (*Chairman*)
Mr. Chan Yuk Ming (*Vice-chairman*)
Mr. Tao Ye

Independent Non-Executive Directors

Mr. Chan Chun Keung
Mr. Wang Jian Sheng
Mr. Tsang Kwok Wai

COMPANY SECRETARY

Mr. Chung Chin Keung FCCA, FCPA, ACA, CTA

AUDITORS

Crowe Horwath (HK) CPA Limited

AUDIT COMMITTEE

Mr. Tsang Kwok Wai (*Chairman*)
Mr. Chan Chun Keung
Mr. Wang Jian Sheng

REMUNERATION COMMITTEE

Mr. Tsang Kwok Wai (*Chairman*)
Mr. Chan Chun Keung
Mr. Wang Jian Sheng

NOMINATION COMMITTEE

Mr. Cheung Siu Lam (*Chairman*)
Mr. Chan Chun Keung
Mr. Wang Jian Sheng
Mr. Tsang Kwok Wai

PRINCIPAL BANKERS

ICBC
Huaxia Bank

SHARE REGISTRARS

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

REGISTERED OFFICE

Suite 5606
56th Floor
Central Plaza
18 Harbour Road
Wanchai
Hong Kong

STOCK CODE: 605

WEBSITE

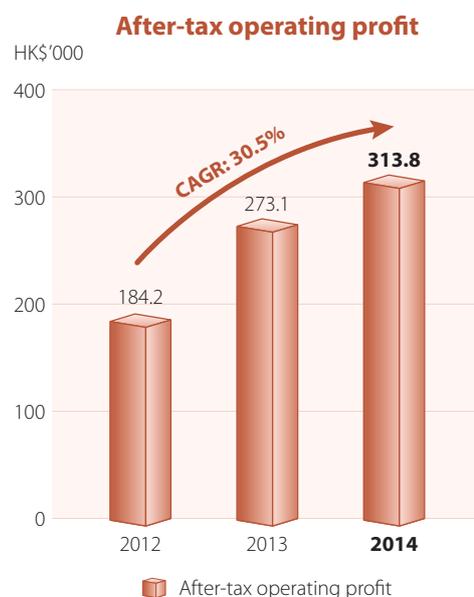
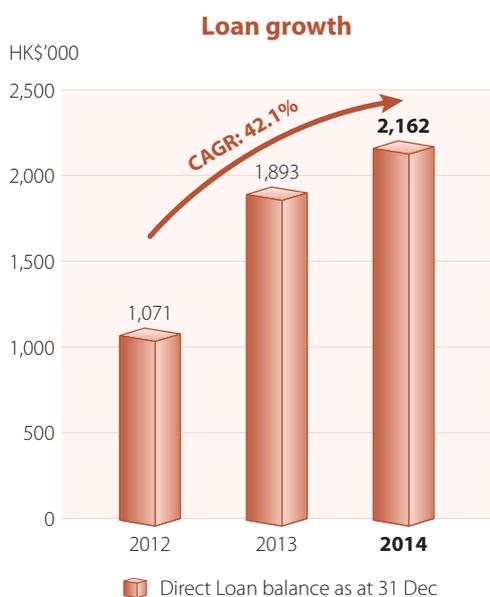
www.cfsh.com.hk

INVESTORS RELATION

0605ir@cfsh.com.hk

FINANCIAL HIGHLIGHTS

	For the year ended 31 December		Percentage change %
	2014 HK\$'000	2013 HK\$'000	
Turnover	560,496	440,724	27.2
After-tax operating profit attributable to equity shareholders (excluding effect on fair value change on convertible note and share-based payment expenses)	313,842	273,115	14.9
ROA (After tax operating profit attributable to equity shareholders/(Total assets-Goodwill))	12.3%	12.4%	-0.8
ROE (After tax operating profit attributable to equity shareholders/(Total equity attributable to equity shareholders-Goodwill))	16.6%	18.6%	-10.8
Profit for the year attributable to equity shareholders of the Company	293,634	237,478	23.6
Basic earnings per share (HK cents)	8.785	7.749	13.4



CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board of directors (the "Board" or the "Directors") of China Financial Services Holdings Limited ("CFS" or the "Company", together with its subsidiaries, collectively the "Group"), I am pleased to present to the shareholders the annual results of CFS for the twelve months ended 31 December 2014.

2014 Annual Results

In 2014, the Group enjoyed another strong year. As of 31 December 2014, turnover of the Group surged 27.2% year-on-year to HK\$560,496,000. Short-term financing services maintained strong growth momentum during the year, after-tax operating profit attributable to equity shareholders of which amounted to HK\$313,842,000, representing an increase of 14.9% as compared to 2013. Profit attributable to equity shareholder of the Company soared 23.6% to HK\$293,634,000, as compared to HK\$237,478,000 in 2013.



Industry Overview

During the year, China's economic growth was tapering amid the volatile market environment. As the key growth engines in our community, SMEs contributed over 60% to the country's GDP, yet these companies still struggle in obtaining financing support within the banking system. In view of this, the government implemented various benign measures to allay the funding bottlenecks for SMEs.

In July 2014, the State Council promulgated new measures emphasizing active and steady development for small and medium financial institutions which served "agriculture, rural areas and farmers" related SMEs. These new measures stressed on propelling the expansion and development of debt financing instruments, direct financing, capital market instruments and insurance products, bolstering policy support in the development of medium, small and micro enterprises.

Amid the volatile macro environment, property oversupply and shrinking demand have posed impact to the housing price throughout the year. Despite the low market sentiment, sale price of commercial and residential properties in Beijing remained stable, particularly the area within the fourth ring. Sales volume in January 2015 demonstrated a visible rebound in tier-one cities.

As a leading SMEs financial service provider in China, the Group recognized the struggles SMEs are facing. We endeavoured to help business owners to get the funding and financial services they need by offering an array of diversified financial services and solutions featuring efficiency and flexibility.

Strategy Implementation

Broadened our sources of funding

2014 is a critical year and a year of change for the Group. During the year, we stepped up efforts in exploring different sources of funding. Our efforts were paid off as seen in our innovative and diversified funding vehicles. On 23 April 2014, the Company completed a Top-up placement and issued a total of 300,000,000 ordinary shares. The proceeds from the Top-up placement was HK\$165,000,000 and the expenses in relation to the placement was HK\$2,086,000, resulting in a net increase in cash proceeds of HK\$162,914,000. In December 2014, we entered into a placing agreement with Convoy Investment Services Limited, to arrange subscriptions for HK\$250 million aggregate principal amount of seven-year 7% bonds during a 12-month placing period. In March 2015, we issued 300 million 6.5% RMB-denominated senior bonds due 2018 (the "Bonds") which was unconditionally and irrevocably guaranteed jointly and severally, by the Company and China United SME Guarantee Corporation ("Sinoguarantee"), a third party guarantor. The Bonds was officially listed on Hong Kong Stock Exchange on 6 March 2015. The Company believes it is the first non-bank financial institution ("NBF") to issue public listed bonds in the market.



The Company's and Sinoguarantee's management team



Press conference

Extended geographic reach across our business

In October 2014, the Group has commenced its lending business in Hong Kong and established a subsidiary in Shanghai to tap the rising demand of financing solutions for SMEs. Our Hong Kong subsidiary has demonstrated strong growth momentum during the Year. As of 31 December 2014, the accumulated loan amount in HK has reached HK\$76 million. The expansion in the two first-tier cities is in line with its expansion strategy of establishing coverage in top-tier cities with transparent legal environment, highly liquidate property market and stable population inflow.

CHAIRMAN'S STATEMENT

Continued to diversify our product offerings

During the year under review, the Group introduced a new product to our product portfolio by offering second lien loan product to customers. To solidify our distribution channels of such product, the Group signed strategic cooperation agreements with two of the largest property agencies in Beijing, namely Beijing Zhong Rong Xin Financial Guarantee Company Limited, a corporation operated by Beijing Home Link Group ("Home Link"), and Beijing Weijia Anjie Investment Guarantee Company Limited, a subsidiary of Weiye Wo Ai Wo Jia Group ("WYWAWJ"), respectively, in May 2014. As of 31 December 2014, accumulated loan amount of second lien loan product we extended in Beijing has reached HK\$111.8 million.

On 31 December 2014, the Group obtained the approval by Beijing Municipal Bureau of Financial Work for the establishment of Beijing Zhongjin Chengkai Small Loan Company Limited jointly with Beijing Urban Development Fund (Limited Partnership). Beijing Zhongjin Chengkai Small Loan Company Limited is intended to provide small loan services in most districts of Beijing.

Fostered cooperative ties with reputable corporations

Apart from the cooperative agreements with Home Link and WYWAWJ, we have also entered into a cooperative agreement with Beijing Huicong International Information Co., Ltd. ("Beijing HC"), the second largest B2B e-commerce operator, and Bank of Tianjin, Beijing Branch (the "BTBB") to strengthen our distribution channel and build a broader customer base. Our strategy has proven its effectiveness as our number of customers has increased significantly throughout the year.

Further enhanced our operational efficiency

Supported by our in-house IT team, we have developed an Enterprise Resource Planning ("ERP") system which helps to consolidate various data in relation to our loan portfolio during the year. With such ERP system in place, our sales team and risk management team are able to obtain relevant information on a real-time and firm-wide basis, thereby improving our risk management capability, reducing our transaction costs and enhancing our credit evaluation abilities through more expedient data collection and analysis.

Prospect

Looking into 2015, we will continue to strengthen our position in Beijing, including by focusing on strengthening the services we already provide in Beijing, stepping up efforts in product innovation, fostering strategic partnerships with large corporations, deepening our brand image and increasing our license resource in order to increase our market share. Meanwhile, we will also seek to grow the business in Hong Kong and Shanghai. The two new markets are expected to be the impetus to grow our business in the years ahead.

We will also seek to extend our product offerings to complement the demand of loan in different markets. With regard to the operations of small loan services through Beijing Zhongjin Chengkai Small Loan Company Limited, we plan to launch two new products, namely, mortgage loan services and automobile loan services, which will allow us to expand our short-term financing services to individuals who borrow loans for personal consumption purposes.



CHAIRMAN'S STATEMENT

Our ability to expand our business scale and diversify our product mix relies upon our ability to continue to increase our sources of funding. We intend to continue to utilise various means to raise capital. On shore, we intend to continue to raise funds through our asset-backed financing programme, and to continue to borrow from banks. In addition, leveraging the Group's public company status, we plan to continue accessing the international capital markets in various manners, including via bond offerings and share placements.

Looking into the future, we will continue to develop innovative products and customer services, consolidate and reinforcing our competitive advantages in risk management, and further enhancing our product mix by developing standardized financial products. With these effective measures in place, I firmly believe that we are poised to capture the growth in the industry fuelled by rising financing demand in the long run.

Final Dividend

The Board recommends a final dividend of HK2.2 cents (2013: HK1.0 cent) per ordinary share for the year ended 31 December 2014, payable to shareholders whose names appear on the register of members of the Company on 5 June 2015.

On behalf of the Board, I would like to thank our shareholders for their continued confidence and support, and would like to take this opportunity to sincerely thank our board of directors, our management team, and our dedicated staff for their hard work and contributions to the Group in 2014. Looking ahead, we will continue to work diligently, and endeavour to achieve outstanding performance and reap fruitful returns to our shareholders.

Cheung Siu Lam

Chairman

Hong Kong, 30 March 2015

CORPORATE GOVERNANCE REPORT

Corporate Governance Practices

The board of directors (the “Board”) of the Company has committed to achieving high corporate governance standards.

The Board believes that high corporate governance standards are essential in providing a framework for the Group to safeguard the interests of shareholders and to enhance corporate value and accountability.

The Company has applied the principles as set out in the Corporate Governance Code (the “CG Code”) contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) (the “Listing Rules”).

The Board is of the view that throughout the year ended 31 December 2014, the Company has complied with most of the code provisions as set out in the CG Code, save and except for code provision A.1.1, A.2.1, A.4.1 and A.6.1 and details will be set out below.

Model Code for Securities Transactions

The Company has adopted its own code of conduct regarding directors’ dealings in the Company’s securities (the “Company Code”) on terms no less exacting than the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 of the Listing Rules.

Specific enquiry has been made of all directors and directors have confirmed that they have complied with the Company Code throughout the year ended 31 December 2014.

The Company has also established written guidelines no less exacting than the Model Code (the “Employees Written Guidelines”) for securities transactions by employees who are likely to be in possession of unpublished price-sensitive information of the Company. No incident of non-compliance of the Employees Written Guidelines by the employees was noted by the Company.

Board of Directors

The Board currently comprises nine members, consisting of three executive directors, three non-executive directors and three independent non-executive directors as follows:

Executive Directors:

Luo Rui (*Chief Executive Officer*)
Guan Xue Ling
Cheung Chai Hong

Non-executive Directors:

Cheung Siu Lam (*Chairman*) *
Chan Yuk Ming (*Vice-chairman*)
Tao Ye



CORPORATE GOVERNANCE REPORT

Independent Non-executive Directors:

Chan Chun Keung ^{★**}

Wang Jian Sheng ^{★**}

Tsang Kwok Wai ^{◆#}

- ◆ Audit Committee Chairman
- ★ Audit Committee Members
- # Remuneration Committee Chairman
- + Remuneration Committee Members
- * Nomination Committee Chairman
- Nomination Committee Members

The biographical information of the Directors are set out in the section headed “Biographical Details of Directors and Senior Management” on pages 23 to 26 of the annual report for the year ended 31 December 2014.

The relationships between the members of the Board are disclosed under “Biographical Details of Directors and Senior Management” on pages 23 to 26.

Chairman and Chief Executive Officer

The Chairman of the Board is Cheung Siu Lam, and the Chief Executive Officer is Luo Rui. With the support of the senior management, the Chairman is responsible for ensuring that the Directors receive adequate, complete and reliable information in a timely manner and appropriate briefing on issues arising at Board meetings, and that all key and appropriate issues are discussed by the Board in a timely manner. The Chief Executive Officer focuses on implementing objectives, policies and strategies approved and delegated by the Board. He is in charge of the Company’s day-to-day management and operations. The Chief Executive Officer is also responsible for developing strategic plans and formulating the organizational structure, control systems and internal procedures and processes for the Board’s approval.

Code provision A.2.1 of the CG Code stipulates that the division of responsibilities between the chairman and chief executive should be clearly established and set out in writing.

The Board considers that the Chairman’s responsibilities are to manage the Board whereas the Chief Executive Officer’s responsibilities are to manage the Company’s businesses. The responsibilities of the Chairman and the Chief Executive Officer respectively are clear and distinctive and hence written terms thereof are not necessary.

CORPORATE GOVERNANCE REPORT

Independent Non-executive Directors

During the year ended 31 December 2014, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive directors with one of whom possessing appropriate professional qualifications or accounting or related financial management expertise.

The Company has received written annual confirmation from each of the independent non-executive directors in respect of his independence in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules. The Company considers all independent non-executive directors are independent.

Non-executive Directors and Directors' Re-election

Code provision A.4.1 of the CG Code stipulates that non-executive directors shall be appointed for a specific term, subject to re-election, whereas code provision A.4.2 states that all directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after appointment and that every director, including those appointed for a specific term, shall be subject to retirement by rotation at least once every three years.

The non-executive directors of the Company do not have a specific term of appointment. However, all directors of the Company are subject to retirement by rotation once every three years and any new director appointed to fill a casual vacancy shall submit himself/herself for re-election by shareholders at the first general meeting after appointment pursuant to the Company's Articles of Association.

Responsibilities, Accountabilities and Contributions of the Board and Management

The Board is responsible for leadership and control of the Company and oversees the Group's businesses, strategic decisions and performance and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. Directors of the Board take decisions objectively in the interests of the Company.

All directors, including non-executive directors and independent non-executive directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning.

All directors have full and timely access to all the information of the Company as well as the services and advice from the company secretary and senior management. The directors may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expenses for discharging their duties to the Company.



CORPORATE GOVERNANCE REPORT

The directors shall disclose to the Company details of other offices held by them and the Board regularly reviews the contribution required from each director to perform his responsibilities to the Company.

The Board reserves for its decision all major matters relating to policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and co-ordinating the daily operation and management of the Company are delegated to the management.

Continuous Professional Development of Directors

Directors keep abreast of responsibilities as a director of the Company and of the conduct, business activities and development of the Company.

Code provision A.6.1 of the CG Code stipulates that every newly appointed director of an issuer should receive a comprehensive, formal and tailored induction on appointment. Subsequently he should receive any briefing and professional development necessary to ensure that he has a proper understanding of the issuer's operations and business and is fully aware of his responsibilities under statute and common law, the Listing Rules, legal and other regulatory requirements and the issuer's business and governance policies.

There is currently no arrangement in place for providing professional briefings and training programmes to directors. Nevertheless, the directors are continually updated with legal and regulatory developments, and the business and market changes to facilitate the discharge of their responsibilities. The Company would consider to engage external legal and other professional advisers for providing professional briefings and training programmes to directors whenever necessary.

Directors should participate in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant.

CORPORATE GOVERNANCE REPORT

During the year ended 31 December 2014, a summary of training received by directors according to the records provided by the directors is as follows:

Directors	Training on Corporate Governance, Regulatory Development and Other Relevant Topics
<i>Executive Directors</i>	
Luo Rui (<i>Chief Executive Officer</i>)	✓
Guan Xue Ling	✓
Cheung Chai Hong	✓
<i>Non-Executive Directors</i>	
Cheung Siu Lam (<i>Chairman</i>)	✓
Chan Yuk Ming (<i>Vice-chairman</i>)	✓
Tao Ye	✓
<i>Independent Non-Executive Directors</i>	
Chan Chun Keung	✓
Wang Jian Sheng	✓
Tsang Kwok Wai	✓

Board Committees

The Board has established three committees, namely, the Audit Committee, Remuneration Committee and Nomination Committee, for overseeing particular aspects of the Company's affairs. All Board committees of the Company are established with defined written terms of reference. The terms of reference of the Board committees are posted on the Company's website and the Stock Exchange's website and are available to shareholders upon request.

The majority of the members of each Board committee are independent non-executive directors and the list of the chairman and members of each Board committee is set out under "Corporate Information" on page 2.

Audit Committee

The main duties of the Audit Committee are to assist the Board in reviewing the financial information and reporting process, internal control procedures and risk management system, audit plan and relationship with external auditors, and arrangements to enable employees of the Company to raise, in confidence, concerns about possible improprieties in financial reporting, internal control or other matters of the Company.



CORPORATE GOVERNANCE REPORT

The Audit Committee held two meetings to review interim and annual financial results and reports in respect of the year ended 31 December 2014 and significant issues on the financial reporting and compliance procedures, internal control and risk management systems, scope of work and appointment of external auditors, and arrangements for employees to raise concerns about possible improprieties.

The Audit Committee also met the external auditors twice.

Remuneration Committee

The primary functions of the Remuneration Committee include reviewing and making recommendations to the Board on the remuneration packages of individual directors and senior management, the remuneration policy and structure for all directors and senior management; and establishing transparent procedures for developing such remuneration policy and structure to ensure that no director or any of his/her associates will participate in deciding his/her own remuneration.

The Remuneration Committee met twice to review and make recommendation to the Board on the remuneration policy and structure of the Company, and the remuneration packages of the directors and senior management and other related matters.

Nomination Committee

The principal duties of the Nomination Committee include reviewing the Board composition, developing and formulating relevant procedures for the nomination and appointment of directors, making recommendations to the Board on the appointment and succession planning of directors, and assessing the independence of independent non-executive directors.

In assessing the Board composition, the Nomination Committee would take into account various aspects set out in the Board diversity policy, including but not limited to gender, age, cultural and educational background, professional qualifications, skills, knowledge and industry and regional experience. The Nomination Committee would discuss and agree on measurable objectives for achieving diversity on the Board, where necessary, and recommend them to the Board for adoption.

In identifying and selecting suitable candidates for directorships, the Nomination Committee would consider the candidate's character, qualifications, experience, independence and other relevant criteria necessary to complement the corporate strategy and achieve Board diversity, where appropriate, before making recommendation to the Board.

CORPORATE GOVERNANCE REPORT

The Nomination Committee met once to review the structure, size and composition of the Board and the independence of the Independent non-executive directors, to consider the qualifications of the retiring Directors standing for election at the annual general meeting and to consider and recommend to the Board on the re-designation of Mr Cheung Siu Lam and Mr Chan Yuk Ming from executive directors to non-executive directors, the resignation of Madam Lo Wan as non-executive director and the appointment of Mr Cheung Chai Hong as executive director.

Corporate Governance Functions

The Board is responsible for performing the functions set out in the code provision D.3.1 of the CG Code.

The Board reviewed the Company's corporate governance policies and practices, training and continuous professional development of directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code and Written Employee Guidelines, and the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

Attendance Record of Directors and Committee Members

Code provision A.1.1 of the CG Code stipulates that at least 4 regular Board meetings a year at approximately quarterly intervals with active participation of majority of directors, either in person or through other electronic means of communication.

The Company does not announce its quarterly results and hence not consider the holding of quarterly meetings as necessary. The Board met held two regular board meetings during the year ended 31 December 2014 for approving the final results for the year ended 31 December 2013 and interim results for the period ended 30 June 2014 and transacting other business.

CORPORATE GOVERNANCE REPORT

The attendance record of each director at the Board and Board Committee meetings and the general meetings of the Company held during the year ended 31 December 2014 is set out in the table below:

Name of Director	Attendance/Number of Meetings				Annual General Meeting
	Board	Nomination Committee	Remuneration Committee	Audit Committee	
Luo Rui	5/7	-	-	-	1/1
Guan Xue Ling	5/7	-	-	-	1/1
Cheung Chai Hong ¹	2/7	-	-	-	-
Cheung Siu Lam ²	7/7	1/1	-	-	1/1
Chan Yuk Ming ²	5/7	-	-	-	0/1
Tao Ye	1/7	-	-	-	0/1
Lo Wan ³	4/7	-	1/2	-	1/1
Chan Chun Keung	5/7	0/1	0/2	2/2	0/1
Wang Jian Sheng ⁴	2/7	0/1	0/2	0/2	0/1
Tsang Kwok Wai	5/7	1/1	1/2	2/2	1/1
Liu Hui ⁵	1/7	-	-	-	0/1

¹ Appointed on 20 May 2014.

² Re-designated from executive directors to non-executive directors on 20 May 2014.

³ Resigned on 20 May 2014.

⁴ Retired on 20 May 2014 and re-appointed on 30 June 2014.

⁵ Resigned on 30 June 2014.

Apart from regular Board meetings, the Chairman also held meetings with the non-executive directors (including independent non-executive directors) without the presence of executive directors during the year.

Directors' Responsibility in Respect of the Financial Statements

The directors acknowledge their responsibility for preparing the financial statements of the Company for the year ended 31 December 2014.

The directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The statement of the independent auditors of the Company about their reporting responsibilities on the financial statements is set out in the Independent Auditor's Report on pages 37 to 38.

CORPORATE GOVERNANCE REPORT

Auditors' Remuneration

During the year under review, the remuneration paid to the auditors of the Company and its subsidiaries, is set out below:

Service Category	Fees Paid/ Payable HK\$
Audit Services	1,538,000

Internal Controls

During the year under review, the Board conducted a review of the effectiveness of the internal control system of the Company, including the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting function.

Shareholders' Rights

To safeguard shareholder interests and rights, a separate resolution is proposed for each substantially separate issue at general meetings, including the election of individual directors. All resolutions put forward at general meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and of the Stock Exchange after each general meeting.

Convening a General Meeting

General meetings may be convened by the Board on requisition of shareholder(s) of the Company representing at least 5% of the total voting rights of all the shareholders having a right to vote at general meetings or by such shareholder(s) who made the requisition (the "Requisitionist(s)") (as the case may be) pursuant to Sections 566 and 568 respectively of the Companies Ordinance (Chapter 622 of the laws of Hong Kong) (the "Companies Ordinance"). Shareholders should follow the requirements and procedures as set out in the Companies Ordinance for convening a general meeting.

Putting Forward Proposals at General Meeting

Pursuant to Section 615 of the Companies Ordinance, shareholders representing at least 2.5% of the total voting rights of all shareholders; or at least 50 shareholders (as the case may be) who have a right to vote at the relevant annual general meeting, may request to circulate a resolution to be moved at an annual general meeting. Shareholders should follow the requirements and procedures as set out in the Companies Ordinance for circulating a resolution for annual general meeting.



CORPORATE GOVERNANCE REPORT

Putting Forward Enquiries to the Board

For putting forward any enquiries to the Board of the Company, shareholders may send written enquiries to the Company. The Company will not normally deal with verbal or anonymous enquiries.

Contact Details

Shareholders may send their enquiries or requests as mentioned above to the following:

Address: Suite 5606, 56/F, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong
(For the attention of the Company Secretary)
Fax: (852) 2598 8305
Email: 0605ir@cfsh.com.hk

For the avoidance of doubt, shareholders must deposit and send the original duly signed written requisition, notice or statement, or enquiry to the above address and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

Communication with Shareholders and Investors/Investor Relations

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investor understanding of the Group's business performance and strategies. The Company endeavours to maintain an on-going dialogue with shareholders and in particular, through annual general meetings and other general meetings. The Chairman of the Board, all other members of the Board including non-executive directors, independent non-executive directors, and the chairmen of all Board committees (or their delegates) will make themselves available at the annual general meetings to meet shareholders and answer their enquiries.

During the year under review, the Company has not made any changes to Articles of Association of the Company. An up to date version of the Company's Articles of Association is also available on the Company's website and the Stock Exchange's website.

On behalf of the Board
Cheung Siu Lam
Chairman

MANAGEMENT DISCUSSION AND ANALYSIS



Annual Results 2014



Interim Results 2014

Business Review

We are a major integrated SME financial service provider in China, principally engaged in the provision of (i) short-term financing services, primarily comprised of pawn loans and small loans and (ii) financial guarantee services to SMEs, microenterprises and individuals. Being a listed non-state owned non-bank SME financial service provider in China, the Group is always committed to the innovation of financial products to meet the diverse financial needs of the market. With the capability of obtaining diversified source of funding, the Group provides SMEs with flexible financing solutions.

During the year, the Group's turnover amounted to HK\$560,496,000, representing a significant increase of 27.2% as compared with HK\$440,724,000 in 2013. Return on assets (After tax operating profit attributable to equity shareholders/(Total assets-Goodwill)) was 12.3%, a decrease of 0.8% and return on equity (After tax operating profit attributable to equity shareholders/(Total equity attributable to equity shareholders-Goodwill)) is 16.6%, a decrease of 10.8%. Profit attributable to equity shareholders of the Company amounted to approximately HK\$293,634,000, an increase of 23.6% as compared to HK\$237,478,000 of last year. Basic earnings per share reached HK 8.785 cents, representing an increase of 13.4% (2013: HK 7.749 cents).

Short-Term Financing

Our short-term financing services primarily comprised of pawn loans and small loans. The majority of the pawn loans we extend to customers are secured by collateral in the form of real estate and automobiles. Pawn loans secured by real estate property account for majority of our short-term financing in terms of outstanding loan amount. We also provide pawn loans secured by automobiles to retailers of high-end imported automobiles who use the loan proceeds to procure new automobiles. In July 2014, we began providing second lien loan product to individuals and SMEs. As for our small loan segment, we engage in both secured and unsecured financing, with the majority of the small loans we provide being secured by real estate.

With the aim to promoting healthy and steady development of the economy, the People's Bank of China ("PBOC") has promulgated various moves throughout the year. In November 2014, the PBOC announced benchmark loan and deposit interest rate cut for the first time in more than two years, with the aim of reducing financing costs for businesses. In February 2015, the PBOC decided to cut required reserve ratio and lowered the one-year deposit and lending rate to further its support to small and micro enterprises.



MANAGEMENT DISCUSSION AND ANALYSIS

Despite the benign measures promulgated by PBOC throughout the year, revenue from our short-term financing business surged 27.0% y-o-y to HK\$557,299,000, mainly attributable our successful launch of second lien loan product and expansion in geographic coverage. The total loan receivable amounted to HK\$2,162,264,000, up 14.2% as compared to 2013 (2013:HK\$1,893,678,000). Evolving demand of short-term financing also fueled the growth in the number of short-term financing customers.

Financial Guarantee

In respect of our financial guarantee services, we guarantee the repayment of loans our customers borrow from banks or other financial institutions. Currently, customers of our financial guarantee services are auto dealers that use the loans to procure new vehicles.

The contingent liabilities in relation to our financial guarantee business totaled HK\$28.4 million, down 85% as compared to HK\$190 million last year, in which approximately HK\$355,000 and HK\$284,000 were recognised as undue liability provision and guarantee compensation provision respectively in the consolidated statement of financial position. Revenue from our financial guarantee business accounted for approximately 0.6% of our turnover in the year.

Financial Review

Turnover

Our total turnover for the year ended 31 December 2014 was approximately HK\$560,496,000, including interest income of approximately HK\$30,020,000, financing consultancy service income of approximately HK\$527,279,000 and loan guarantee service income of approximately HK\$3,197,000, representing an increase of 27.2% as compared to HK\$440,724,000 for the year ended 31 December 2013. The increase was mainly due to an increase in demand for funding from SMEs and individuals, the deployment of our second lien loan product and the expansion of our geographic coverage.

Other revenue

The total amount of our other revenue for the year ended 31 December 2014 was approximately HK\$28,610,000 as compared to HK\$32,569,000 in 2013, representing a decrease of 12.2%.

Other net income/(loss)

During the year ended 31 December 2014, other income and loss recorded a net income of approximately HK\$6,886,000. We recorded other net loss for year ended 31 December 2013 of approximately HK\$28,691,000, mainly comprising loss from change in fair value on our convertible note.

General and administrative expenses

Our general and administrative expenses for the year ended 31 December 2014 were approximately HK\$143,176,000, representing an increase of 58.8% as compared to HK\$90,180,000 for the year ended 31 December 2013. The increase was mainly due to the expenses incurred in granting share options to eligible grantees and an increase in consultancy fee paid to our sales agents during the period.

MANAGEMENT DISCUSSION AND ANALYSIS



Investor Presentation

Share of loss of an associate

The share of loss of an associate for the year ended 31 December 2014 was approximately HK\$4,000, representing a decrease of 90.0% as compared to HK\$40,000 for the year ended 31 December 2013. The decrease was mainly due to decrease in share of administrative expenses of an associate.

Finance costs

Our finance costs for year ended 31 December 2014 was approximately HK\$41,399,000, representing an increase of 72% as compared to HK\$24,074,000 for the year ended 31 December 2013. The increase was attributable to the cost of funds obtained on asset securitizations.

Financial Resources and Capital Structure

The Group maintains a healthy cash position and sufficient capital for business development. As at 31 December 2014, current assets of the Group comprised cash and cash equivalents of approximately HK\$153,014,000, short-term loans receivables of approximately HK\$2,162,264,000, accounts and interests receivable of approximately HK\$35,074,000, other receivables, deposits and prepayments of approximately HK\$7,892,000, and pledged bank and security deposits paid of approximately HK\$146,383,000. Non-current assets mainly comprised property, plant and equipment of about HK\$5,148,000, goodwill of about HK\$654,528,000, and available-for-sale investments of approximately HK\$31,832,000.

Current liabilities mainly comprised liabilities arising from loan guarantee contracts of approximately HK\$639,000, other payables, deposits received and accrual of approximately HK\$15,388,000, short-term borrowings of approximately HK\$430,735,000, bank loans of approximately HK\$68,452,000, income received in advance of approximately HK\$7,461,000, convertible note of approximately HK\$26,728,000 and tax payable of approximately HK\$69,808,000.



MANAGEMENT DISCUSSION AND ANALYSIS

Use of Proceeds

On 26 March 2013, the Group issued a total amount of US\$12 million convertible note to CCB International (Holdings) Limited. As of 31 December 2014, the net proceeds were utilized in accordance with the purposes disclosed in the announcement dated as set out below:

	Proposed use of proceeds	Actual use of proceeds
Working capital and other general corporate purposes	US\$12,000,000	US\$9,000,000
Redeemed		US\$3,000,000

On 10 April 2014, a placing agreement was signed between the controlling shareholder and the placing agent and a subscription agreement was signed between the Company and the controlling shareholder. The Top-Up Placing was completed on 23 April 2014 and 300 million new shares were issued to the controlling shareholder at a price of HK\$0.55. The net proceeds obtained from the new issue were about HK\$162.7 million. As of 31 December 2014, the net proceeds were utilized in accordance with the purposes disclosed in the announcement dated as set out below:

	Proposed use of proceeds	Actual use of proceeds
Working capital and other general corporate purposes	HK\$162,700,000	HK\$86,700,000
Use on lending business in Hong Kong		HK\$76,000,000

Liquidity and Gearing Ratio

The Group maintains a healthy liquidity position. As at 31 December 2014, the current ratio of the Group was 4.0 times. The Group monitors capital on the basis of the gearing ratio, which is calculated as total borrowings (including current and non-current borrowings and security deposits received) less cash and cash equivalents and pledged bank and security deposits paid divided by total equity. As at 31 December 2014, the gearing ratio was about 8.81%.

Fair Value Estimation

The carrying amounts less impairment provision of the financial assets and the carrying amounts of the financial liabilities are assumed to approximate their fair values.

Employee and Remuneration Policies

As at 31 December 2014, the Group had approximately 155 employees in Beijing, Hong Kong and Shanghai. Competitive remuneration packages and performance-based bonuses are structured to commensurate with individual responsibilities, qualifications, experience and performance. The Group also set up a share option scheme for the purpose of providing incentives to eligible employees. For the year under review, total staff costs were about HK\$36,998,000.

MANAGEMENT DISCUSSION AND ANALYSIS

Bank Loans

The Group's bank borrowings were about HK\$68,452,000. The debt maturity profile of the Group as at 31 December 2014 is analyzed below:

	2014 HK\$'000	2013 HK\$'000
Within 1 year or on demand	68,452	22,894
After 1 year but within 2 years	-	17,806
	68,452	40,700

Convertible Note

On 15 March 2013, the Company (the issuer), Chance Talent Management Limited (the Subscriber), Cheung Siu Lam and Lo Wan (the joint Guarantors) entered into the Subscription Agreement in respect of the issue of the convertible note ("Convertible Note") in the principal amount of US\$12 million (equivalent to approximately HK\$93 million). The net proceeds from the Convertible Note of approximately HK\$90 million will be used for general working capital and business development of the Group. The Convertible Note shall carry an interest of 10% per annum payable semi-annually in arrears. Completion of the issue of the Convertible Note to the Subscriber took place on 26 March 2013. On 26 April 2013 and 20 November 2013, an aggregate principal sum of approximately HK\$46,542,000 of the Convertible Note was converted by the Subscriber. On 14 May 2014, an aggregate principal sum of approximately HK\$23,270,000 of the Convertible Note was redeemed by the Company. The Convertible Note was designated as financial liabilities though profit and loss and at year end date the fair value of the Convertible Note was approximately HK\$26,728,000. On 26 March 2015, the remaining principal sum of approximately HK\$23,270,000 of the Convertible Note was also redeemed by the Company.

Contingent Liabilities

Save for the contingent liabilities arising from our financial guarantee business under the heading Financial Guarantee disclosed above, the Group may become involved in certain legal proceedings relating to claims arising out of operations in the normal course of business. However, none of these proceedings, individually or in aggregate, is expected to have material adverse effect on the Group's financial situation or operational results.



BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. Luo Rui, aged 47, is the chief executive officer of the Group and is responsible for the overall business development and daily operation of the Group. Mr. Luo graduated with a Bachelor and Master's degree in Building Construction of Xi'an University of Architecture and Technology (西安建築科技大學). Mr. Luo has over 16 years of experience and a proven track record in commercial real estate investment and financing, assets acquisition, project development, market development and corporate management. Mr. Luo has been the chief architect and deputy general manager of a property developer in Hainan and the deputy general manager of a property management company in Beijing. Mr. Luo has extensive networks with senior management of property developers, major commercial banks and local authorities in Beijing. He is currently a councilor of the Beijing Guarantee Association (北京市擔保協會), the Beijing Association of Small and Medium Enterprises (北京市中小企業協會), the Beijing Association of Pawn Business (北京市典當協會) and the Beijing Microcredit Association (北京市小額貸款協會). He joined the Group in June 2011.

Mr. Luo does not have any relationship with any other directors, senior management or substantial or controlling shareholders of the Company.

Madam Guan Xue Ling, aged 40, is the chief operating officer of the Group. Madam Guan has over 12 years of strategic decision making and practical experiences in listed companies auditing, corporate merger and acquisition, equity acquisition, transfer as well as project investment and financing.

Madam Guan joined the Group in June 2011, mainly responsible for risk management, accounting affairs and treasury management of the Group.

Madam Guan successively held the posts of quality control manager, auditing manager, assessment manager, chief auditor and head of the auditing department in domestic accounting firms, large state-owned enterprises, large private companies and foreign-invested companies. She is familiar with accounting and valuation standards. During her years with accounting firms, she had participated in the auditing work of a number of large state-owned enterprises, foreign-invested enterprises and private enterprises, such as China Resources Land, Sinobo Group and Suning Corporation. She also participated in various IPOs audit and internal audit, such as BBMG Corporation, Enlight Media and Ningxia Yellow River Rural Commercial Bank. She had led and participated in various auditing projects spanning across the real estate, manufacturing, media, retail, logistic and finance sectors and has extensive experiences in financial auditing and internal auditing.

Madam Guan graduated from Capital University of Economics and Business with a Postgraduate Degree in Business Administration. She is also a certified public accountant, a qualified asset appraiser in the the People's Republic of China ("PRC") and a party member of China Democratic National Construction Association.

Madam Guan does not have any relationship with any other directors, senior management or substantial or controlling shareholders of the Company.

Mr. Cheung Chai Hong, aged 29, is the executive Vice President of the Group. Mr. Cheung is responsible for the daily operations in Hong Kong and heads the investor relations team of the Group.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Prior to joining us, he has been the managing director of POC Holdings (HK) Limited (“POCH”) and the chairman and leading founder of The Wine Company Limited, a fine wine retail and trading company. He is also the founder and deputy chairman of Bonhma Holdings (HK) Limited (“Bonhma Holdings”), a subsidiary of POCH whose core business is developing luxury automobile 4S dealership and after-sales businesses in the PRC. Bonhma Holdings is currently owning a comprehensive branded 4S dealership network, covering different cities and regions of the PRC and focuses on luxury brands and ultra-luxury brands such as Jaguar & Land Rover and Mercedes-Benz. It also operates Bosch authorised automobile service centres across various cities of the PRC. Mr. Cheung previously worked in PAG Capital, an Asia-focused asset management company which has an asset under management size over US\$4 billion. Prior to joining PAG Capital, he also worked in Barclays Capital and focused on equity research on the retail and FMCG sector. Mr. Cheung Chai Hong holds a Bachelor Degree in Business Studies from University of Warwick and a Master Degree in Analysis, Design and Management of Information Systems from London School of Economics and Political Science.

Mr. Cheung Chai Hong is the son of Mr. Cheung Siu Lam, the chairman of the Group and Madam Lo Wan, a substantial shareholder of the Company. Save as disclosed above, Mr. Cheung does not have any relationship with any other directors, senior management or substantial or controlling shareholders of the Company.

Non-Executive Directors

Mr. Cheung Siu Lam, aged 56, is a co-founder and Chairman of the Group. Before establishing the Group, Mr. Cheung worked for Beijing Machinery Import & Export Company for many years. Mr. Cheung has extensive experience in trading, retailing, food processing and property management in the PRC. Mr. Cheung is responsible for the overall strategic planning and corporate development of the Group. Mr. Cheung is the chairman of the Nomination Committee of the Company.

Mr. Cheung Siu Lam is the spouse of Madam Lo Wan, a substantial shareholder of the Company and the father of Mr. Cheung Chai Hong, the executive director of the Company. Save as disclosed above, Mr. Cheung does not have any relationship with any other directors, senior management or substantial or controlling shareholders of the Company.

Mr. Chan Yuk Ming, aged 56, is the vice-chairman of the Group. Mr. Chan graduated from the Hangzhou Institute of Business, following which he worked in the accounting department of the Ministry of Commerce. He joined the Group in 1985.

Mr. Chan does not have any relationship with any other directors, senior management or substantial or controlling shareholders of the Company.



BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Tao Ye, aged 42, joined the Group in January 2004. He was appointed as an executive director on 15 July 2011 and re-designated from executive director to non-executive director on 11 December 2012. Mr. Tao graduated in Peking University in 1995 and obtained a Bachelor Degree in Science and a certificate in Law. Mr. Tao further obtained a Master Degree in Science from Peking University in 1998 and a Master Degree in Business Administration from the Guanghua School of Management of Peking University in 2001. He has extensive experience in strategic planning, business administration and corporate management and possesses unparalleled strength in the areas of overall corporate structuring as well as risk management over various business and operations.

Mr. Tao does not have any relationship with any other directors, senior management or substantial or controlling shareholders of the Company.

Independent Non-Executive Directors

Mr. Wang Jian Sheng, aged 62, graduated from Luoyang Industrial Institution (currently known as Henan Technology University) with a degree in engineering. He has been involved in industrial businesses for more than 28 years and has worked in the Project Department of China Everbright Industrial Company for four years. Mr. Wang is the chairman of Strong Petrochemical Holdings Limited (a company listed on The Stock Exchange of Hong Kong Limited). Mr. Wang joined the Group in 1996 and was an independent non-executive director of the Company before his retirement at the annual general meeting of the Company held on 20 May 2014. Mr. Wang is also a member of the Audit Committee, the Remuneration Committee and the Nomination Committee of the Company.

Mr. Wang does not have any relationship with any other directors, senior management or substantial or controlling shareholders of the Company.

Mr. Chan Chun Keung, aged 64, joined the Group in November, 2000. Mr. Chan has extensive experience in trading and investment in the PRC and is currently the vice-chairman of the Fukien Chamber of Commerce in Hong Kong and a committee member of the Foreign Investment Enterprises Association in the PRC. Mr. Chan is also a member of the Audit Committee, the Remuneration Committee and the Nomination Committee of the Company.

Mr. Chan does not have any relationship with any other directors, senior management or substantial or controlling shareholders of the Company.

Mr. Tsang Kwok Wai, aged 45, joined the Group in May 2007. He is a fellow member of the Hong Kong Institute of Certified Public Accountants; The Association of Chartered Certified Accountants; and The Taxation Institute of Hong Kong. Mr. Tsang is also an independent non-executive director of Century Ginwa Retail Holdings Limited (a company listed on The Stock Exchange of Hong Kong Limited). At present, Mr. Tsang runs his own firm and practises public accounting. He is also the chairman of the Audit Committee and the Remuneration Committee and a member of the Nomination Committee of the Company.

Mr. Tsang does not have any relationship with any other directors, senior management or substantial or controlling shareholders of the Company.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Senior Management

Ms. Fu Jie, aged 40, is the Vice President of the Group. Ms. Fu joined the Group in 2010, mainly responsible for mid-to-large sized direct loan business in Beijing. Ms. Fu has more than 10 years of experiences in project management and over 6 years of experience in large business operations with large-scale business and 4 years of experience in foreign currency management.

Ms. Fu holds a Bachelors' Degree in Accounting at the University of Financial Accounting Management Training.

Mr. Lu Wei Jun, aged 41, is the Vice President of the Group. Mr. Lu has approximately 21 years of working experience in banks and non-bank financial institutions and has over 10 years of practical experience in loan guarantee industry. Mr. Lu is responsible for the Group's loan guarantee business in Beijing. Mr. Lu graduated with a Bachelor degree in Law of Minzu University of China. Mr. Lu joined the Group in 2012.

Mr. Chung Chin Keung, aged 47, is the company secretary and financial controller of the Group. He joined the Group in October, 2004. Mr. Chung holds a bachelor degree of Business Administration from the Hong Kong Baptist University and a master degree in Business Administration from Manchester Business School. He has more than 22 years of experience in finance, accounting and management. Before joining the Group, Mr. Chung worked for various listed companies in Hong Kong and overseas and was a company secretary for a listed company in Hong Kong. Mr. Chung is a fellow member of The Association of Chartered Certified Accountants, a fellow member of The Hong Kong Institute of Certified Public Accountants, an associate member of The Institute of Chartered Accountants in England and Wales and a member of The Taxation Institute of Hong Kong. Mr. Chung is responsible for daily operations and financial operations in Hong Kong.

Mr. Kan Lap Hung Don, aged 39, is the chief executive officer of Hong Kong business. He is responsible for the daily operations and business development of Hong Kong. Mr. Kan has more than 14 years of experience in asset management and over 6 years of experience in operations management. Mr. Kan holds a bachelor degree of Accounting & Finance from the Middlesex University and a Master degree in Accounting and Finance from University of Birmingham. He joined the Group in November 2014. Prior to joining the Company, Mr. Kan held the role of managing director at CreditEast Wealth Management (HK) Limited and was the head of investment at Fuh Hwa SITE Asset Management Ltd. Mr. Kan also worked at Morgan Stanley and Bank of Tokyo-Mitsubishi. Mr. Kan is a SFC licensed Responsible Officer for Type 4 and Type 9 regulated activities.

Ms. Luo Li Jun, aged 34, is the head of Shanghai office. Ms. Luo is responsible for our daily operations and business development in Shanghai. Ms. Luo jointed the Company in September 2014. She has more that 10 years of experience in business development with top tier financial institutions, such as Citibank and Standard Chartered, and 5 years of experience in business operations. Ms. Luo holds a Bachelor's Degree in business administration from East China Normal University.



REPORT OF THE DIRECTORS

The directors present herewith their report and the audited financial statements of the Company and the Group for the year ended 31 December 2014.

Principal Activities

The principal activity of the Company is investment holding. The principal activities and other particulars of the subsidiaries, are set out in note 13 to the financial statements respectively.

Segment Information

An analysis of the Group's segment revenue, results, assets and liabilities for the year ended 31 December 2014 is set out in note 3 to the financial statements.

Results and Dividends

The Group's profit for the year ended 31 December 2014 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 39 to 43. The directors recommend the payment of a final dividend of HK2.2 cents per ordinary share for the year ended 31 December 2014 (2013: HK1.0 cent per ordinary share).

Reserves

Details of movements in the reserves of the Company and of the Group during the year are set out in note 35 to the financial statements.

Property, Plant and Equipment

Details of movements in property, plant and equipment of the Group are set out in note 12 to the financial statements.

Share Capital and Share Options

Details of movements in share capital and share options of the Company during the year, together with the reasons therefore, are set out in notes 34 and 36 to the financial statements, respectively.

Distributable Reserves

Loss for the year attributable to equity shareholders of the Company of HK\$29,691,000 (2013: loss of HK\$42,242,000) has been transferred to reserves. As at 31 December 2014, the Company's reserve available for distribution to shareholders amounted to approximately HK\$76,880,000 (2013: HK\$126,953,000) in accordance with the provisions of Section 79B of the Hong Kong Companies Ordinance.

REPORT OF THE DIRECTORS

Major Customers and Suppliers

The Group is principally engaged in retail business and provision of short term financing services. The five largest customers and the five largest suppliers of the Group accounted for less than 30% of the Group's revenue and purchases respectively during the year.

As far as the directors are aware, neither the directors, their associates nor any shareholder of the Company (which, to the best of knowledge of the directors, owns more than 5% of the Company's share capital) had any beneficial interest in these major customers and suppliers.

Directors

The directors who held office during the year and up to the date of this report were:

Executive Directors

Luo Rui (*Chief Executive Officer*)
Guan Xue Ling
Cheung Chai Hong (appointed on 20 May 2014)

Non-executive Directors

Cheung Siu Lam (*Chairman*) (re-designated on 20 May 2014)
Chan Yuk Ming (*Vice-chairman*) (re-designated on 20 May 2014)
Tao Ye

Independent Non-executive Directors

Chan Chun Keung
Wang Jian Sheng (re-appointed on 30 June 2014)
Tsang Kwok Wai

According to Article 105(A) of the Company's Articles of Association, Mr. Cheung Siu Lam, Mr. Chan Yuk Ming and Mr. Tao Ye shall retire by rotation at the annual general meeting and are eligible to offer themselves for re-election at the annual general meeting. According to Article 96 of the Company's Articles of Association, Mr. Cheung Chai Hong and Mr. Wang Jian Sheng shall retire at the annual general meeting and are eligible to offer themselves for re-election at the annual general meeting. The directors of the Company, including the independent non-executive directors are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with the provisions of the Company's Articles of Association and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("the Listing Rules").

Directors' Service Contracts

The non-executive director, Mr. Tao Ye has entered into a service contract with the Company for a term of two years commencing on 15 July 2011 and is subject to retirement by rotation and re-election at the Annual General Meeting of the Company in accordance with the Articles of Association of the Company.

Independent non-executive directors, namely Mr. Wang Jian Sheng and Mr. Chan Chun Keung entered into service contracts with the Company respectively for a term of one year commencing on 9 September 2004. Mr. Tsang Kwok Wai has entered into a service contract with the Company for one year commencing on 28 May 2007. Mr. Liu Hui has entered into a service contract with the Company for one year commencing on 8 October 2007. All of them are subject to retirement by rotation and re-election at the Annual General Meeting of the Company in accordance with the Articles of Association of the Company.

Either party may terminate the contract by giving not less than two months' notice in writing or payment of remuneration in lieu of such notice or the unexpired part of such period. Their remuneration is determined by the board of directors on the anniversary of the dates of their appointments.

No director proposed for re-election at the forthcoming annual general meeting has an unexpired service contract which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

Directors' Interests in Contracts

No contracts of significance to which the Company or any of its subsidiaries was a party and in which a director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

REPORT OF THE DIRECTORS

Directors' Interests in Share Capital

As at 31 December 2014, the interests and short positions of the directors in the shares, underlying shares and debentures of the Company or its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (“SFO”)) as recorded in the register maintained by the Company pursuant to Section 352 of Part XV of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) pursuant to the Model Code for Securities Transaction by Directors of Listed Companies (“Model Code”), were as follows:

Long Positions in Shares and Underlying Shares of the Company

Name of Director	Capacity	Number of Ordinary Shares held	Underlying Shares Interested (Note 1)	Aggregate Long Position in Shares and Underlying Shares to Issued Share Capital
Cheung Siu Lam	Beneficial owner of 1,710,044,240 ordinary shares and 11,000,000 underlying shares, family interest of 316,276,000 ordinary shares and 11,000,000 underlying shares (Note 2) and interest in controlled corporation of 86,400,000 ordinary shares (Note 3)	2,112,720,240	22,000,000	62.25%
Chan Yuk Ming	Beneficial owner	10,000,000	12,000,000	0.64%
Tao Ye	Beneficial owner	–	7,000,000	0.20%
Luo Rui	Beneficial owner	1,230,000	22,000,000	0.67%
Guan Xue Ling	Beneficial owner	–	2,000,000	0.05%



REPORT OF THE DIRECTORS

Notes:

1. The number of shares represents the shares in which the directors are deemed to be interested as a result of holding share options.
2. By virtue of the SFO, Cheung Siu Lam is deemed to be interested in 316,276,000 ordinary shares and 11,000,000 underlying shares held by his spouse, Lo Wan.
3. Arbalice Holdings Limited is beneficially owned as to 60% by Cheung Siu Lam and 40% by his spouse, Lo Wan. By virtue of the SFO, Cheung Siu Lam and Lo Wan are deemed to be interested in 86,400,000 shares held by Arbalice Holdings Limited.

Directors' Rights to Acquire Shares

Save as disclosed under the headings "Directors' Interests in Share Capital" above and "Share Option Scheme" below, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company or any of its subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

REPORT OF THE DIRECTORS

Interests in Substantial Shareholders

As at 31 December 2014, the following company and person were interested in more than 5% of the issued share capital of the Company according to the register kept by the Company under Section 336 of Part XV of the SFO:

Long Positions in Shares and Underlying Shares of the Company

Name	Capacity	Number of Ordinary Shares held	Underlying Shares Interested	Aggregate Long Position in Shares and Underlying Shares to Issued Share Capital
Lo Wan	Beneficial owner of 316,276,000 ordinary shares and 11,000,000 underlying shares, family interest of 1,710,044,240 ordinary shares and 11,000,000 underlying shares and interest in controlled corporation of 86,400,000 ordinary shares	2,112,720,240	22,000,000	62.25%
China Orient Asset Management Corporation	Beneficial owner	172,100,000	–	5.02%

Save as disclosed above, no person had registered an interest or a short position in the shares and underlying shares or debentures of the Company that was required to be recorded under Section 336 of Part XV of the SFO.

Share Option Scheme

The Company adopted a share option scheme on 7 June 2004 (the “2004 Scheme”) which was terminated on 6 June 2014. The Company adopted a new share option scheme (the “2014 Scheme”) at the Company’s annual general meeting held on 20 May 2014. Unless otherwise cancelled or amended, the 2014 Scheme will remain in force for 10 years from that date.

A summary of the 2014 Scheme of the Company is as follows:

Purpose	To provide incentives and rewards to eligible participants for their contributions 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 entity in which the Group holds an equity interest (the “Invested Entity”).
Participants	<ul style="list-style-type: none">(i) any employee (whether full-time or part-time), executive directors, non-executive directors and independent non-executive directors of the Company, any of its subsidiaries or any Invested Entity;(ii) any supplier of goods or services to any member of the Group or any Invested Entity, any customer of the Group or any Invested Entity; any person or entity that provides technical, financial and legal support to the Group or any Invested Entity; and(iii) any shareholder of any member of the Group or any Invested Entity or any holder of any securities issued by any member of the Group or any Invested Entity.
Total number of ordinary shares available for issue under the 2014 Scheme and the percentage of the issued share capital that it represents as at the date of the annual report	342,908,633 ordinary shares and 9.99% of the existing issued share capital.
Maximum entitlement of each participant	Where any grant or further grant of options to a participant would result in the total number of shares issued and to be issued upon exercise of all the options granted and to be granted to such person (including exercised, cancelled and outstanding options) in the 12-month period up to and including the date of such grant or further grant representing in aggregate over 1% of the total number of shares in issue, such grant or further grant must be separately approved by the shareholders in a general meeting.

REPORT OF THE DIRECTORS

Where any grant or further grant of options to a substantial shareholder or an independent non-executive director of the Company, 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 grant or further grant of options must be approved by the shareholders in a general meeting.

Period within which the securities must be taken up under an option

An option may be exercised at any time during a period to be determined and notified by the directors to each grantee, but shall end in any event not later than 10 years from the date of offer of the grant of options subject to the provisions for early termination set out in the 2014 Scheme.

Minimum period for which an option must be held before it can be exercised

There is no minimum period for which an option granted must be held before it can be exercised except otherwise imposed by the directors.

Amount payable on acceptance of the option and the period within which such payment must be made

The offer of a grant of share options may be accepted within 28 days from the date of the offer with a consideration of HK\$1.00 being payable by the grantee.

Basis of determining the exercise price

Determined by the directors but shall not be less than the highest of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheet on the date of offer of grant of options, which must be a trading day; and (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of offer of grant of options.

The remaining life of the 2014 Scheme

The 2014 Scheme remains in force until 19 May 2024.

REPORT OF THE DIRECTORS

During the year under review, no share options were granted under the 2014 Scheme since it was adopted.

Subsequent to the termination of the 2004 Scheme, no further option can be granted thereunder but in all other respects, the provisions of the 2004 Scheme shall remain in force and all options granted prior to such termination shall continue to be valid and exercisable in accordance therewith.

The following share options were outstanding under the 2004 Scheme during the year:

Director	Date of offer	Exercise price HK\$	Outstanding at 1.1.2014	Granted during the year	Exercised during the year	Lapsed during the year	Outstanding at 31.12.2014	Exercise period	Closing price of the securities immediately before the date on which the options were offered HK\$
Cheung Siu Lam	04.10.07	0.479	10,000,000	-	-	-	10,000,000	04.10.07 – 03.10.17	0.460
	22.10.10	0.359	1,000,000	-	-	-	1,000,000	22.10.10 – 21.10.20	0.360
Lo Wan*	04.10.07	0.479	10,000,000	-	-	-	10,000,000	04.10.07 – 03.10.17	0.460
	22.10.10	0.359	1,000,000	-	-	-	1,000,000	22.10.10 – 21.10.20	0.360
Chan Yuk Ming	04.10.07	0.479	10,000,000	-	-	-	10,000,000	04.10.07 – 03.10.17	0.460
	22.10.10	0.359	2,000,000	-	-	-	2,000,000	22.10.10 – 21.10.20	0.360
Tao Ye	04.10.07	0.479	5,000,000	-	-	-	5,000,000	04.10.07 – 03.10.17	0.460
	22.10.10	0.359	2,000,000	-	-	-	2,000,000	22.10.10 – 21.10.20	0.360
Luo Rui	22.10.10	0.359	2,000,000	-	-	-	2,000,000	22.10.10 – 21.10.20	0.360
	11.04.14	0.660	-	20,000,000	-	-	20,000,000	11.04.14 – 10.04.24	0.630
Guan Xue Ling	22.10.10	0.359	2,000,000	-	-	-	2,000,000	22.10.10 – 21.10.20	0.360
	04.10.07	0.479	10,000,000	-	-	-	10,000,000	04.10.07 – 03.10.17	0.460
Employees in aggregate	22.10.10	0.359	1,000,000	-	1,000,000	-	-	22.10.10 – 21.10.20	0.360
	11.04.14	0.660	-	60,000,000	-	-	60,000,000	11.04.14 – 10.04.16	0.630
Other eligible grantees	11.04.14	0.660	-	20,000,000	-	-	20,000,000	11.04.14 – 10.04.18	0.630
	11.04.14	0.660	-	30,000,000	-	-	30,000,000	11.04.14 – 10.04.24	0.630
	11.04.14	0.660	-	30,000,000	-	-	30,000,000	11.04.14 – 10.04.24	0.630

* Lo Wan resigned as a non-executive director of the Company on 20 May 2014.

REPORT OF THE DIRECTORS

Purchase, Sale or Redemption of the Company's Listed Securities

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

Retirement Schemes

The Group also operates a Mandatory Provident Fund Scheme under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance, and participates in various defined contribution retirement plans organised by the relevant authorities for its employees in the PRC.

Corporate Governance

Details of the corporate governance are set out in the section headed "Corporate Governance Report" in this annual report.

Sufficiency of Public Float

Based on the information that is publicly available to the Company and to the knowledge of the directors, the directors confirm that the Company has maintained the amount of public float as required under the Listing Rules during the year.

Auditor

The financial statements have been audited by Crowe Horwath (HK) CPA Limited, Certified Public Accountants. A resolution for their re-appointment as the Company's auditor for the ensuing year is to be proposed at the forthcoming annual general meeting of the Company.

On behalf of the board

Cheung Siu Lam

Chairman

Hong Kong, 30 March 2015



INDEPENDENT AUDITOR'S REPORT



國富浩華(香港)會計師事務所有限公司
Crowe Horwath (HK) CPA Limited
Member Crowe Horwath International

9/F Leighton Centre,
77 Leighton Road,
Causeway Bay, Hong Kong

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS OF CHINA FINANCIAL SERVICES HOLDINGS LIMITED

(Incorporated in Hong Kong with limited liability)

We have audited the consolidated financial statements of China Financial Services Holdings Limited (“the Company”) and its subsidiaries (together “the Group”) set out on pages 39 to 137, which comprise the consolidated and company statements of financial position as at 31 December 2014, and the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibility for the consolidated financial statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. This report is made solely to you, as a body, in accordance with section 80 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622), and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

INDEPENDENT AUDITOR'S REPORT

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2014, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the Hong Kong Companies Ordinance.

Crowe Horwath (HK) CPA Limited

Certified Public Accountants

Hong Kong, 30 March 2015

Yau Hok Hung

Practising Certificate Number P04911

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2014

	Note	2014 HK\$'000	2013 HK\$'000
Turnover	3	560,496	440,724
Other revenue	3	28,610	32,569
Other net income/(loss)	4	6,886	(28,691)
General and administrative expenses		(143,176)	(90,180)
Profit from operations		452,816	354,422
Share of loss of an associate		(4)	(40)
Finance costs	5(a)	(41,399)	(24,074)
Profit before taxation	5	411,413	330,308
Income tax	6(a)	(114,930)	(90,173)
Profit for the year		296,483	240,135
Attributable to:			
Equity shareholders of the Company		293,634	237,478
Non-controlling interests		2,849	2,657
Profit for the year		296,483	240,135
Earnings per share (in HK cent)	11		
– Basic		HK8.785 cents	HK7.749 cents
– Diluted		HK8.529 cents	HK7.700 cents

The notes on pages 47 to 137 form an integral part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 10.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2014

	2014 HK\$'000	2013 HK\$'000
Profit for the year	296,483	240,135
Other comprehensive (loss)/income for the year, net of nil income tax		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of overseas subsidiaries	(4,626)	31,269
Change in fair value of available-for-sale financial assets	790	(2,038)
Other comprehensive (loss)/income for the year, net of nil income tax	(3,836)	29,231
Total comprehensive income for the year	292,647	269,366
Attributable to:		
Equity shareholders of the Company	289,860	257,988
Non-controlling interests	2,787	11,378
Total comprehensive income for the year	292,647	269,366

The notes on pages 47 to 137 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

	Note	2014 HK\$'000	2013 HK\$'000
Non-current assets			
Property, plant and equipment	12	5,148	7,089
Goodwill	14	654,528	656,730
Interest in an associate	15	3,856	3,860
Available-for-sale investments	16	31,832	45,536
		695,364	713,215
Current assets			
Accounts receivable	17	20,631	22,607
Short-term loans receivables	18	2,162,264	1,893,678
Interests receivable	19	14,443	15,635
Forfeited collateral held for sales	20	–	533
Other receivables, deposits and prepayments	21	7,892	7,812
Tax recoverable	6(c)	151	151
Pledged bank and security deposits paid	22	146,383	103,610
Cash and cash equivalents	24	153,014	103,288
		2,504,778	2,147,314
Current liabilities			
Short-term borrowings	25	430,735	416,040
Bank loans	26	68,452	22,894
Convertible note	27	26,728	–
Security deposits received	28	–	109,833
Amount due to an associate		3,549	3,561
Other payables, deposits received and accruals	29	15,388	18,299
Liabilities arising from loan guarantee contracts	30	639	6,325
Income received in advance	31	7,461	5,371
Financial derivatives	32	266	1,000
Tax payable	6(c)	69,808	65,031
		623,026	648,354
Net current assets		1,881,752	1,498,960
Total assets less current liabilities		2,577,116	2,212,175

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

	Note	2014 HK\$'000	2013 HK\$'000
Non-current liabilities			
Bank loans	26	-	17,806
Convertible note	27	-	57,802
Deferred tax liabilities	33	6,421	5,356
		6,421	80,964
NET ASSETS		2,570,695	2,131,211
EQUITY			
Share capital: nominal value	34	-	312,908
Other statutory capital reserves		-	943,981
Share capital and other statutory capital reserves		1,420,378	1,256,889
Other reserves	35	1,125,257	833,576
TOTAL EQUITY ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY		2,545,635	2,090,465
Non-controlling interests		25,060	40,746
TOTAL EQUITY		2,570,695	2,131,211

The consolidated financial statements on pages 39 to 137 were approved and authorised for issue by the board of directors on 30 March 2015 and were signed on its behalf by:

Cheung Siu Lam
Director

Cheung Chai Hong
Director

The notes on pages 47 to 137 form an integral part of these financial statements.

STATEMENT OF FINANCIAL POSITION

As at 31 December 2014

	Note	2014 HK\$'000	2013 HK\$'000
Non-current assets			
Property, plant and equipment	12	2,298	2,322
Interests in subsidiaries	13	63,669	63,669
Interest in an associate	15	3,900	3,900
		69,867	69,891
Current assets			
Amounts due from subsidiaries	23	1,581,561	1,477,496
Other receivables, deposits and prepayments	21	15,161	1,262
Cash and cash equivalents	24	2,091	8,673
		1,598,813	1,487,431
Current liabilities			
Convertible note	27	26,728	–
Amounts due to subsidiaries	23	110,389	102,210
Other payables, deposits received and accruals	29	1,286	559
		138,403	102,769
Net current assets		1,460,410	1,384,662
Total assets less current liabilities		1,530,277	1,454,553
Non-current liabilities			
Convertible note	27	–	57,802
NET ASSETS		1,530,277	1,396,751
EQUITY			
Equity attributable to equity shareholders of the Company			
Share capital: nominal value	34	–	312,908
Other statutory capital reserves		–	943,971
Share capital and other statutory capital reserves		1,420,378	1,256,879
Other reserves	35	109,899	139,872
TOTAL EQUITY		1,530,277	1,396,751

Approved and authorised for issue by the board of directors on 30 March 2015 and were signed on its behalf by:

Cheung Siu Lam
Director

Cheung Chai Hong
Director

The notes on pages 47 to 137 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014

	Attributable to equity shareholders of the Company								Non-controlling interests	Total equity
	Share capital	Share premium	Share-based compensation reserve	Exchange fluctuation reserve	Fair value reserve	Statutory surplus reserve	Retained earnings	Total		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Balance at 1 January 2013	299,700	865,692	22,117	16,465	585	17,960	558,004	1,780,523	29,368	1,809,891
Changes in equity in 2013:										
Profit for the year	-	-	-	-	-	-	237,478	237,478	2,657	240,135
Other comprehensive income	-	-	-	22,548	(2,038)	-	-	20,510	8,721	29,231
Total comprehensive income	-	-	-	22,548	(2,038)	-	237,478	257,988	11,378	269,366
Conversion of convertible note	9,308	57,540	-	-	-	-	-	66,848	-	66,848
Shares issued under share option scheme	3,900	20,749	(8,728)	-	-	-	-	15,921	-	15,921
Transfer to retained earnings upon lapse of share options	-	-	(470)	-	-	-	470	-	-	-
Dividend paid	-	-	-	-	-	-	(30,815)	(30,815)	-	(30,815)
Transfer to reserve	-	-	-	-	-	808	(808)	-	-	-
Balance at 31 December 2013 and 1 January 2014	312,908	943,981	12,919	39,013	(1,453)	18,768	764,329	2,090,465	40,746	2,131,211
Changes in equity in 2014:										
Profit for the year	-	-	-	-	-	-	293,634	293,634	2,849	296,483
Other comprehensive income	-	-	-	(4,564)	790	-	-	(3,774)	(62)	(3,836)
Total comprehensive income	-	-	-	(4,564)	790	-	293,634	289,860	2,787	292,647
Equity settled share-based transactions	-	-	20,316	-	-	-	-	20,316	-	20,316
Shares issued under share option scheme	575	-	(216)	-	-	-	-	359	-	359
Shares issued under Top-up placement	165,000	-	-	-	-	-	-	165,000	-	165,000
Share issue expenses in relation to Top-up placement	(2,086)	-	-	-	-	-	-	(2,086)	-	(2,086)
Transition to no-par value regime on 3 March 2014	943,981	(943,981)	-	-	-	-	-	-	-	-
Dividend paid	-	-	-	-	-	-	(34,291)	(34,291)	-	(34,291)
Acquisition of non-controlling interests in a subsidiary	-	-	-	-	-	-	16,012	16,012	(18,473)	(2,461)
Transfer to reserve	-	-	-	-	-	2,374	(2,374)	-	-	-
Balance at 31 December 2014	1,420,378	-	33,019	34,449	(663)	21,142	1,037,310	2,545,635	25,060	2,570,695

The notes on pages 47 to 137 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2014

	Note	2014 HK\$'000	2013 HK\$'000
Operating activities			
Profit before taxation		411,413	330,308
Adjustments for			
Depreciation of property, plant and equipment	12	4,940	4,497
Impairment loss for available-for-sale investments	5(c)	5,936	–
Gain on disposal of available-for-sale investments	4	(4,902)	(3,160)
Impairment loss for short-term loans receivables	18(b)	1,269	578
(Reversal of provision)/provision for undue liability and guarantee compensation	30(b)	(3,150)	2,628
Bank interest income	3	(5,299)	(2,289)
Finance costs	5(a)	41,399	24,074
Dividend income from listed investments	3	(1,302)	(1,366)
Share of loss of an associate		4	40
Equity-settled share-based payment expenses	5(c)	20,316	–
Fair value change of financial derivatives	4	(734)	1,000
Fair value change of convertible note	4	(108)	35,637
Gain on redemption of convertible note	4	(2,053)	–
Loss/(gain) on translation of convertible note at FVTPL denominated in a foreign currency into the functional currency	4	170	(516)
		467,899	391,431
Changes in working capital			
Decrease in accounts receivable		1,892	2,781
Increase in short-term loans receivables		(272,077)	(827,866)
Decrease /(increase) in interests receivable		1,131	(10,102)
Decrease/(increase) in security deposits paid		33,461	(92,687)
Decrease in forfeited collateral held for sales		533	105
Decrease in other receivables, deposits and prepayments		1,724	203,155
Decrease in other payables, deposits received and accruals		(2,827)	(171,353)
(Decrease)/increase in liabilities arising from loan guarantee contracts		(2,509)	2,413
Increase in income received in advance		2,100	5,288
Cash used in operations		231,327	(496,835)
Taxation paid			
– PRC enterprise income tax	6(c)	(108,896)	(77,150)
– Hong Kong Profits Tax	6(c)	–	(38)
Taxation refund			
– PRC enterprise income tax	6(c)	16	16
Net cash generated from/(used in) operating activities		122,447	(574,007)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2014

	Note	2014 HK\$'000	2013 HK\$'000
Investing activities			
Purchase of property, plant and equipment	12	(3,023)	(666)
Purchase of available-for-sale investments		(56)	(377)
Proceeds from sale of available-for-sale investments		11,685	11,322
Investment in an associate		-	(3,900)
Payment for acquisition of non-controlling interests in a subsidiary	13	(2,461)	-
Increase in pledged bank deposits		(76,674)	-
Proceeds on disposal of a subsidiary, net of cash disposed		-	61,543
Bank interest received	3	5,299	2,289
Dividend received from listed investment	3	1,302	1,366
Net cash (outflow)/inflow from investing activities		(63,928)	71,577
Financing activities			
Proceeds from new bank loans		50,705	18,784
Repayment of bank loans		(22,953)	(2,750)
Proceeds from new short-term borrowings		230,652	406,704
Repayment of short-term borrowings		(215,638)	(308,103)
Security deposit (refunded)/received		(109,833)	109,833
Proceeds from issuance of convertible note		-	93,600
Payment for redemption of convertible note		(23,400)	-
Advance from an associate		-	3,561
Net proceeds from Top-up placement		162,914	-
Proceeds from exercise of share option		359	15,921
Coupon interest paid for convertible note		(5,683)	(4,071)
Other interest paid		(41,718)	(14,738)
Dividends paid		(34,291)	(30,815)
Net cash (outflow)/inflow from financing activities		(8,886)	287,926
Increase/(decrease) in cash and cash equivalents		49,633	(214,504)
Effect of foreign exchange rate changes		93	4,332
Cash and cash equivalents at beginning of the year		103,288	313,460
Cash and cash equivalents at end of the year	24	153,014	103,288

Major non-cash transaction

On 26 April 2013 and 20 November 2013, the convertible note of US\$6,000,000 (equivalent to HK\$46,542,000) was converted into the Company's ordinary shares, creating a total of 93,084,000 new ordinary shares at a conversion price of HK\$0.5 per share. Details are set out in note 27 to the financial statements.

The notes on pages 47 to 137 form an integral part of these financial statements.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

1. Corporate Information

The Company is a limited liability company incorporated in Hong Kong. The address of its registered office is Suite 5606, 56th Floor, Central Plaza, 18 Harbour Road, Wanchai, Hong Kong.

The principal activity of the Company is investment holding. The principal activities of the Company's subsidiaries are set out in note 13 to the financial statements.

2. Significant Accounting Policies

a) *Statement of compliance*

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and accounting principles generally accepted in Hong Kong. These financial statements also comply with the applicable requirements of the Hong Kong Companies Ordinance, which for this financial year and the comparative period continue to be those of the predecessor Hong Kong Companies Ordinance (Cap. 32), in accordance with transitional and saving arrangements for part 9 of the new Hong Kong Companies Ordinance (Cap. 622), "Accounts and Audit", which are set out in sections 76 to 87 of Schedule 11 to that Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Company and its subsidiaries (together referred to as the "Group") are set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

b) *Basis of preparation of the financial statements*

The consolidated financial statements for the year ended 31 December 2014 comprise the Company and its subsidiaries and the Group's interest in an associate.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

- financial instruments classified as available-for-sale financial assets or financial assets at fair value through profit or loss (see note 2(j));
- derivative financial instruments (see note 2(g)); and
- convertible note (see note 2(n)).

Non-current assets and disposal group held for sale are stated at the lower of carrying amount and fair value less costs to sell (see note 2(x)).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

2. Significant Accounting Policies (Continued)

b) Basis of preparation of the financial statements (Continued)

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

Judgements made by management in the application of HKFRSs that have a significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 40.

c) Changes in accounting policies

The HKICPA has issued the following amendments to HKFRSs and one new Interpretation that are first effective for the current accounting period of the Group and the Company:

- Amendments to HKFRS 10, HKFRS 12 and HKAS 27, *Investment entities*
- Amendments to HKAS 32, *Offsetting financial assets and financial liabilities*
- Amendments to HKAS 36, *Recoverable amount disclosures for non-financial assets*
- Amendments to HKAS 39, *Novation of derivatives and continuation of hedge accounting*
- HK(IFRIC) 21, *Levies*



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

2. Significant Accounting Policies (Continued)

c) Changes in accounting policies (Continued)

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period. Impacts of the adoption of new or amended HKFRSs are discussed below:

Amendments to HKFRS 10, HKFRS 12 and HKAS 27, Investment entities

The amendments provide consolidation relief to those parents which qualify to be an investment entity as defined in the amended HKFRS 10. Investment entities are required to measure their subsidiaries at fair value through profit or loss. These amendments do not have an impact on these financial statements as the Company does not qualify to be an investment entity.

Amendments to HKAS 32, Offsetting financial assets and financial liabilities

The amendments to HKAS 32 clarify the offsetting criteria in HKAS 32. The amendments do not have an impact on these financial statements as they are consistent with the policies already adopted by the Group.

Amendments to HKAS 36, Recoverable amount disclosures for non-financial assets

The amendments to HKAS 36 modify the disclosure requirements for impaired non-financial assets. Among them, the amendments expand the disclosures required for an impaired asset or CGU whose recoverable amount is based on fair value less costs of disposal. The amendments do not have an impact on these financial statements as the Group does not have any impaired non-financial assets or CGU whose recoverable amount is based on fair value less costs of disposal.

Amendments to HKAS 39, Novation of derivatives and continuation of hedge accounting

The amendments to HKAS 39 provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. The amendments do not have an impact on these financial statements as the Group has not novated any of its derivatives.

HK(IFRIC) 21, Levies

The Interpretation provides guidance on when a liability to pay a levy imposed by a government should be recognised. The amendments do not have an impact on these financial statements as the guidance is consistent with the Group's existing accounting policies.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

2. Significant Accounting Policies *(Continued)*

d) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position in accordance with notes 2(m), (n) or (o) depending on the nature of the liability.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

2. Significant Accounting Policies (Continued)

d) Subsidiaries and non-controlling interests (Continued)

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 2(j)) or, when appropriate, the cost on initial recognition of an investment in an associate (see note 2(e)) or joint venture.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 2(k)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale) (see note 2(x)).

e) Associates

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale) (see note 2(x)). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see notes 2(k)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

2. Significant Accounting Policies (Continued)

e) *Associates (Continued)*

If an investment in an associate becomes an investment in a joint venture, retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 2(j)).

In the Company's statement of financial position, investments in associates are stated at cost less impairment losses (see note 2(k)), unless classified as held for sale (or included in a disposal group that is classified as held for sale) (see note 2(x)).

f) *Goodwill*

Goodwill represents the excess of

- (i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over
- (ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see note 2(k)).

On the disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

g) *Derivative financial instruments*

Derivative financial instruments are recognised initially at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

2. Significant Accounting Policies *(Continued)*

h) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 2(k)).

Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are recognised in profit or loss during the financial period in which they are incurred.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

- Buildings situated on leasehold land are depreciated over the shorter of the unexpired term of lease and their estimated useful lives, being no more than 50 years after the date of completion;
- Leasehold improvements 3 years or over the remaining term of the lease, if shorter
- Furniture and equipment 3 to 5 years
- Motor vehicles 3 to 5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

2. Significant Accounting Policies (Continued)

i) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

i) Classification of assets leased to the Group

Assets that are held by Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

ii) Operating lease charges

Where the Group has the use of assets under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term.

j) Financial assets

Financial assets are recognised in the statement of financial position when an entity within the Group becomes a party to the contractual provisions of a financial instrument.

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

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



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

2. Significant Accounting Policies (Continued)

j) Financial assets (Continued)

i) Available-for-sale financial assets

Equity and debt securities held by the Group that are classified as available-for-sale financial assets are measured at fair value at the end of each reporting period, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve.

As an exception to this, available-for-sale financial assets that do not have a quoted market price in an active market for an identical instrument and whose fair value cannot otherwise be reliably measured are recognised in the statement of financial position at cost less impairment losses (see note 2(k)).

Dividend income from equity securities and interest income from debt securities calculated using the effective interest method are recognised in profit or loss in accordance with the policies set out in notes 2(u)(ii) and 2(u)(iii) respectively.

When these investments are derecognised or impaired (see note 2(k)), the cumulative gain or loss is reclassified from equity to profit or loss. Investments are recognised/derecognised on the date the Group and/or the Company commits to purchase/sell the investments or when they expire.

ii) Financial assets at fair value through profit or loss

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

A financial asset is classified as held for trading if:

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

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

2. Significant Accounting Policies (Continued)

j) Financial assets (Continued)

ii) Financial assets at fair value through profit or loss (Continued)

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

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

At the end of each reporting period subsequent to initial recognition, financial assets at FVTPL are stated at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets.

Assets in this category are classified as current assets if expected to be settled within 12 months after the end of reporting period; otherwise, they are classified as non-current.

iii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest method less allowance for impairment of doubtful debts (see note 2(k)(i)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such case, loan and receivables are stated at cost less allowance for impairment of doubtful debts. They are included in current assets, except for the amount that are settled or expected to be settled more than 12 months after the end of reporting period. These are classified as non-current assets.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

2. Significant Accounting Policies (Continued)

j) Financial assets (Continued)

iii) Loans and receivables (Continued)

Effective interest method

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

Interest income is recognised on an effective interest basis for debt instruments.

k) Impairment of assets

i) Impairment of investments in equity securities and other financial assets

Investments in equity securities and other current and non-current financial assets that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

2. Significant Accounting Policies (Continued)

k) Impairment of assets (Continued)

i) Impairment of investments in equity securities and other financial assets (Continued)

If any such evidence exists, any impairment loss is determined and recognised as follows:

- For investments in associates accounted for under the equity method in the consolidated financial statements (see note 2(e)), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 2(k)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 2(k)(ii).
- For available-for-sale securities that are measured at fair value at the end of the reporting period, the cumulative loss that had been recognised in the fair value reserve is reclassified to profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Impairment losses recognised in profit or loss in respect of available-for-sale equity securities are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised in other comprehensive income.

Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in profit or loss.

- For financial assets that do not have a quoted price in an active market for an identical instrument and whose fair value cannot otherwise be reliably measured and are carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities carried at cost are not reversed.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

2. Significant Accounting Policies (Continued)

k) Impairment of assets (Continued)

i) Impairment of investments in equity securities and other financial assets (Continued)

- For loans and receivables, the Group use two methods of assessing impairment losses: those assessed individually and those assessed on a collective basis.

- Individual assessment

Loans and receivables, which are considered individually significant, are assessed individually for impairment. If there is objective evidence of impairment of loans and receivables, the amount of loss is measured as the excess of its carrying amount over the present value of the estimated future cash flows, discounted at the original effective interest rate (that is, the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. The impairment losses are recognised in profit or loss.

Cash flows relating to short-term loans and receivables are not discounted when assessing impairment loss if the difference between the estimated future cash flows and its present value is immaterial.

The calculation of the present value of the estimated future cash flows of a collateralised loan or receivable reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral.

- Collective assessment

Loans and receivables which are assessed collectively for impairment include individually assessed loans and receivables with no objective evidence of impairment on an individual basis, and homogeneous groups of loans and receivables which are not considered individually significant and not assessed individually. Loans and receivables are grouped for similar credit risk characteristics for collective assessment. The objective evidence of impairment mainly includes that, though it is unable to identify the decrease of cash flow of each individual asset, after collective assessment based on observable data, there is observable evidence indicating that there is a measurable decrease in the estimated future cash flow from a group of financial assets since the initial recognition of those assets.

The Group periodically reviews and assesses the impaired loans and receivables for any subsequent changes to the estimated recoverable amounts and the resulted changes in the provisions for impairment losses.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

2. Significant Accounting Policies (Continued)

k) Impairment of assets (Continued)

i) Impairment of investments in equity securities and other financial assets (Continued)

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

When the Group determines that a loan or receivable has no reasonable prospect of recovery after the Group has completed all the necessary legal or other claim proceedings, the loan is written off against its provisions for impairment losses upon necessary approval.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of financial assets, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against financial assets directly and any amounts held in the allowance account relating to that assets are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- goodwill; and
- investments in subsidiaries and an associate in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

2. Significant Accounting Policies (Continued)

k) Impairment of assets (Continued)

ii) Impairment of other assets (Continued)

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (that is, a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable), or value in use (if determinable).

– Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of impairment losses is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

2. Significant Accounting Policies (Continued)

k) Impairment of assets (Continued)

iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with HKAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see note 2(k)(i) and (ii)).

Impairment losses recognised in an interim period in respect of goodwill, available-for-sale equity securities and unquoted equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates. Consequently, if the fair value of an available-for-sale equity security increases in the remainder of the annual period, or in any other period subsequently, the increase is recognised in other comprehensive income and not profit or loss.

l) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

m) Accounts and other payables

Accounts and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 2(r), accounts and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

2. Significant Accounting Policies *(Continued)*

n) Convertible note

The convertible note consists of both liability component, conversion option and other embedded derivatives which are not closely related to the host liability contract. Conversion options that will not be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the issuer's own equity instruments are not equity instruments and are considered as embedded derivatives not closely related to the host contract.

The Group has elected to designate its convertible note with embedded derivatives as financial liabilities at FVTPL on initial recognition as the convertible note contains one or more embedded derivatives. Subsequent to initial recognition, the convertible note is measured at fair value, with changes in fair value recognised directly in profit or loss in the period in which they arise. The change in fair value recognised in profit or loss includes any interest paid for the convertible note.

Transaction costs that are directly attributable to the issue of the convertible note designated as financial liabilities at FVTPL are recognised immediately in profit or loss.

o) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

p) Forfeited collateral held for sale

Forfeited collateral held for sale consists of forfeited collateral, from moneylending loans not repaid. The forfeited collateral is stated at the lower of cost (moneylending loan principal) and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale. The cost of forfeited collateral held for sale, computed on the specific identification basis, is recorded as a cost of revenue at the time of sale.

q) Employee benefits and share-based payment arrangements

i) Short-term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans, and the cost to of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

2. Significant Accounting Policies *(Continued)*

q) *Employee benefits and share-based payment arrangements (Continued)*

ii) *Termination benefits*

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

iii) *Share-based payments to employees*

The fair value of share options granted to employees is recognised as an employee cost with a corresponding increase in share-based compensation reserve within equity. The fair value is measured at grant date using the option pricing model, taking into account the terms and conditions upon which the options were granted. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any resulting adjustment to the cumulative fair value recognised in prior years is charged/credited to the profit or loss for the year of the review, unless the original employee expenses qualify for recognition as an asset, with a corresponding adjustment to the share-based compensation reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of options that vest (with a corresponding adjustment to the share-based compensation reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the share-based compensation reserve until either the option is exercised (when it is included in the amount recognised in share capital for the shares issued) or the option expires (when it is released directly to retained profits).

iv) *Share-based payments to consultants*

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



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

2. Significant Accounting Policies *(Continued)*

r) Financial guarantees issued

A loan guarantee contract is a contract that requires the issuer (that is, the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the “holder”) for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Where the Group issues a financial guarantee, the fair value of the guarantee is initially recognised as deferred income within liabilities from guarantees. The fair value of financial guarantees issued at the time of issuance is determined by reference to fees charged in an arm’s length transaction for similar services, when such information is obtainable, or is otherwise estimated by reference to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group’s policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss on initial recognition of any deferred income.

The amount of the guarantee initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued. In addition, provisions are recognised in accordance with note 2(s)(i) if and when (i) it becomes probable that the holder of the guarantee will call upon the Group under the guarantee, and (ii) the amount of that claim on the Group is expected to exceed the amount currently carried in liabilities from guarantees in respect of that guarantee i.e. the amount initially recognised, less accumulated amortisation.

s) Provisions and contingent liabilities

(i) Provisions for guarantee losses

When determining the amounts to be recognised in respect of liabilities arising from the guarantee business, management estimates the provisions based on prior experience and default history of the business. It is possible that the prior experience and default history is not indicative of future loss on the guarantees issued. Any increase or decrease in the provisions would affect the income statement in future years.

Undue liability provision is recognised at 50% of the guarantee income in the year it is generated.

Guarantee compensation provision is recognised at 1% of the year-end balance of the guarantee liability in the year it arose.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

2. Significant Accounting Policies *(Continued)*

s) *Provisions and contingent liabilities (Continued)*

(ii) *Other provisions and contingent liabilities*

Provisions are recognised for other liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditures expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

t) *Income tax*

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

2. Significant Accounting Policies *(Continued)*

t) *Income tax (Continued)*

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary differences or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantially enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

2. Significant Accounting Policies (Continued)

t) *Income tax (Continued)*

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

u) *Revenue recognition*

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

i) *Revenue from short-term financing services*

- 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 revenue can be measured reliably. Interest income from a financial assets is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial assets to that asset's net carrying amount on initial recognition.
- Loan guarantee service income, consists of guarantee fee and related service income and is recognised in profit or loss on a straight-line basis over the guarantee period.
- Financing consulting service income, which is collected from the customer at the inception of a pawn loan or other short-term loan, is recognised when the services are rendered.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

2. Significant Accounting Policies (Continued)

u) Revenue recognition (Continued)

ii) Dividends

- Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.
- Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

iii) Other interest income

Other interest income is recognised as it accrues using the effective interest method.

iv) Service income

Revenue arising from the provision of the services is recognised when the relevant services are rendered.

v) Government grants

Government grants are recognised in the statement of financial position initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as income in profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognised in profit or loss over the useful life of the asset by way of reduced depreciation expense.

v) Translation of foreign currencies

i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in Hong Kong dollars, which is the Company's functional and presentation currency.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

2. Significant Accounting Policies *(Continued)*

v) *Translation of foreign currencies (Continued)*

ii) *Transactions and balances*

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss, except those arising from translation of the financial statements of overseas subsidiaries and the associate which are recognised in other comprehensive income.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items, including goodwill arising on consolidation of foreign operations acquired on or after 1 January 2005, are translated into Hong Kong dollars at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve. Goodwill arising on consolidation of a foreign operation acquired before 1 January 2005 is translated at the foreign exchange rate that applied at the date of acquisition of foreign operation.

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), the cumulative amount of the exchange differences in respect of that operation attributable to the equity shareholders of the Company are reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

In the case of a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (that is, partial disposals of associates that do not result in the Group losing significant influence), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

2. Significant Accounting Policies *(Continued)*

w) *Borrowing costs*

All borrowing costs are expensed in the period in which they are incurred.

x) *Non-current assets held for sale*

A non-current asset (or disposal group) is classified as held for sale if it is highly probable that its carrying amount will be recovered through a sale transaction rather than through continuing use and the asset (or disposal group) is available for sale in its present condition. A disposal group is a group of assets to be disposed of together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all the assets and liabilities of that subsidiary are classified as held for sale when the above criteria for classification as held for sale are met, regardless of whether the Group will retain a non-controlling interest in the subsidiary after the sale.

Immediately before classification as held for sale, the measurement of the non-current assets (and all individual assets and liabilities in a disposal group) is brought up-to-date in accordance with the accounting policies before the classification. Then, on initial classification as held for sale and until disposal, the non-current assets (except for certain assets as explained below), or disposal groups, are recognised at the lower of their carrying amount and fair value less costs to sell. The principal exceptions to this measurement policy so far as the financial statements of the Group and the Company are concerned are deferred tax assets and financial assets (other than investments in subsidiaries and associates). These assets, even if held for sale, would continue to be measured in accordance with the policies set out elsewhere in note 2.

Impairment losses on initial classification as held for sale, and on subsequent remeasurement while held for sale, are recognised in profit or loss. As long as a non-current asset is classified as held for sale, or is included in a disposal group that is classified as held for sale, the non-current asset is not depreciated or amortised.

y) *Related parties*

- a) A person, or a close member of that person's family, is related to the Group if that person:
 - i) has control or joint control over the Group;
 - ii) has significant influence over the Group; or
 - iii) is a member of the key management personnel of the Group or the Group's parent.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

2. Significant Accounting Policies *(Continued)*

y) *Related parties (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 of 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).
 - 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).

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

z) *Segment reporting*

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Company's board of directors 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 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

3. Revenue and Segment Reporting

a) Revenue

The amount of each significant category of revenue during the year is as follows:

	Group	
	2014 HK\$'000	2013 HK\$'000
Turnover		
Interest income on provision of short-term financing services (see note 1 below)	30,020	11,120
Financing consultancy service income	527,279	427,780
<hr/>		
Total interest income on provision of short-term financing services and financing consultancy service income	557,299	438,900
Loan guarantee service income	3,197	1,824
<hr/>		
	560,496	440,724
<hr/>		
Other revenue		
Bank interest income	5,299	2,289
Dividend income from listed investments	1,302	1,366
Income from government subsidies	19,535	14,565
Property consultancy service income (see note 2 below)	-	11,289
Sundry income	2,474	3,060
<hr/>		
	28,610	32,569
<hr/>		
Total revenue	589,106	473,293

Note: 1) During the year ended 31 December 2014, included in interest income on provision of short-term financing services was approximately HK\$11,452,000 received from 中金佳晟投資基金管理(北京)有限公司, of which certain directors of the Company are its key management personnel. Details of the transaction are set out in note 18 to the financial statements.

2) The property consultancy service income was received from two related companies of the Group, 北京嘉澤潤豐投資諮詢有限公司("北京嘉澤潤豐") and 北京嘉潤智德國際投資諮詢有限公司("北京嘉潤智德"). Mr Cheung Siu Lam, the non-executive director of the Company, is a key management personnel of 北京嘉澤潤豐 and 北京嘉潤智德.

3) The total amount of interest income on financial assets not at fair value through profit or loss during the year was HK\$562,598,000 (2013: HK\$441,189,000).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

3. Revenue and Segment Reporting *(Continued)*

b) Segmental Information

i) Operating segment information

The Group engaged in a single type business of provision of short-term financing services. Accordingly, no operating segment information is presented.

ii) Geographical Information

The geographical location of customers is based on the location at which the services are rendered. Substantially, over 90% of the Group's revenue from external customers, non-current assets and capital expenditure are located in the People's Republic of China ("PRC"), no analysis on revenue from external customers and non-current assets by location are presented.

iii) Information about major customers

The Group's customer base is diversified, thus no single customer of the Group contributed 10% or more of the Group's turnover for the year ended 31 December 2014. Turnover of approximately HK\$48,411,000 was derived from a customer which has exceeded 10% of the Group's turnover for year ended 31 December 2013.

4. Other Net Income/(Loss)

	Group	
	2014	2013
	HK\$'000	HK\$'000
Gain on disposal of available-for-sale investments	4,902	3,160
Gain/(loss) on fair value change on convertible note	108	(35,637)
Gain on redemption of convertible note	2,053	–
(Loss)/gain on translation of convertible note at FVTPL denominated in a foreign currency into the functional currency	(170)	516
	1,991	(35,121)
Gain/(loss) on fair value change of financial derivatives in respect of decumulator contracts	734	(1,000)
Gain on disposal of forfeited collateral held for sales	4	124
Exchange (loss)/gain, net	(817)	4,021
Others	72	125
	6,886	(28,691)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

5. Profit Before Taxation

The Group's profit before taxation is arrived at after charging/(crediting):

	2014 HK\$'000	2013 HK\$'000
(a) Finance costs:		
Interest on bank loans wholly repayable within five years	2,155	1,729
Interest on short-term borrowings (see note 25)	39,244	22,345
	41,399	24,074
(b) Staff costs (including directors' emoluments – note 7):		
Salaries, allowances and other benefits	28,285	21,811
Equity-settled share-based payment expenses	4,236	–
Contributions to defined contribution retirement plans (see note (1) below)	4,477	2,975
	36,998	24,786
(c) Other items:		
Depreciation	4,940	4,497
Operating lease charges in respect of properties (see note (2) below)	6,487	5,645
Auditors' remuneration	1,538	1,285
Reversal of undue liability provision and guarantee compensation provision	(3,150)	–
Impairment loss for short-term loans receivables	1,269	578
Impairment loss on available-for-sale investments	5,936	–
Consultancy fee (see note (3) below)	14,576	10,363
Equity-settled share-based payment expenses (see note (4) below)	20,316	–

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

5. Profit Before Taxation (Continued)

Note: 1) The Group operated a Mandatory Provident Fund Scheme (the "MPF scheme") under the Hong Kong Mandatory Provident Fund Scheme Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK\$30,000 (HK\$25,000 prior to June 2014). Contributions to the plan vest immediately.

The employees of the Group's subsidiaries in the PRC are members of the state-managed retirement benefit scheme operated by the government of the PRC. The subsidiaries of the Group are required to contribute certain percentage of their payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the specified contributions.

- 2) During the year, the Group paid operating lease charges of approximately HK\$1,486,000 (2013: HK\$1,453,000) and HK\$2,242,000 (2013: HK\$1,644,000) in respect of properties to 北京元長厚茶葉有限公司 and 北京東皇物業管理有限公司 respectively, of which a director of the Company is their legal representatives. The directors of the Company are of the opinion that such transaction was conducted on mutually agreed terms in the ordinary course of business.
- 3) During the year, the Group paid consultancy fee of approximately HK\$7,176,000, HK\$1,483,000, HK\$1,668,000 and HK\$1,651,000 (2013: HK\$741,000, HK\$12,000, nil and nil) to 中金佳晟投資基金管理(北京)有限公司, 北京天福號生態科技有限公司, 北京天福號農莊有限公司 and 北京港佳好鄰居連鎖便利店有限責任公司 respectively, of which certain directors of the Company are their legal representatives. The directors of the Company are of the opinion that such transaction was conducted on mutually agreed terms in the ordinary course of business.
- 4) Equity-settled share-based payment expenses include HK\$4,236,000 relating to staff costs which amount is also included in the total amount disclosed in note 5(b) for staff costs.

6. Income Tax

- a) Taxation in the consolidated statement of profit or loss represents:

	Group	
	2014	2013
	HK\$'000	HK\$'000
Current tax – Hong Kong Profits Tax		
Over-provision in respect of prior years	–	(8)
Current tax – PRC Enterprise Income Tax		
Provision for the year	113,360	95,603
Under-provision in respect of prior years	492	366
Deferred tax		
Origination and reversal of temporary differences	1,078	(5,788)
	114,930	90,173

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

6. Income Tax (Continued)

- a) Taxation in the consolidated statement of profit or loss represents: (Continued)

No provision for profits tax arising in Hong Kong has been made as the Group has no income assessable for profits tax for the year in Hong Kong (2013: Nil).

The provision for the PRC Enterprise Income Tax of the subsidiaries established in the PRC is calculated at 25% (2013: 25%) of the estimated taxable profits for the year.

- b) Reconciliation between tax expense charged to profit or loss and accounting profit at the applicable tax rates:

	2014	2013
	HK\$'000	HK\$'000
Profit before taxation	411,413	330,308
Notional tax on profit before taxation, calculated at the rates applicable to profits in the tax jurisdictions concerned	105,603	86,609
Tax effect of non-taxable income	(751)	(3,033)
Tax effect of non-deductible expenses	5,691	11,052
Tax effect of temporary differences not recognised	11	427
Tax effect of utilisation of unused tax losses previously not recognised	(188)	(304)
Under-provision of PRC Enterprise Income Tax in prior years	492	366
Over-provision of Hong Kong Profits Tax in prior years	-	(8)
Tax effect of withholding tax on the distributable profits of the Group's PRC subsidiaries	1,078	(5,788)
Others	2,994	852
Actual tax expense	114,930	90,173

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

6. Income Tax (Continued)

c) Current taxation in the consolidated statement of financial position represents:

	Group	
	2014	2013
	HK\$'000	HK\$'000
At 1 January	(64,880)	(44,177)
Provision for the year		
– PRC Enterprise Income Tax	(113,360)	(95,603)
Under-provision in respect of prior years	(492)	(366)
Over-provision in respect of prior years	–	8
Taxation paid for PRC Enterprise Income Tax	108,896	77,150
Taxation paid for Hong Kong Profits Tax	–	38
Tax refunded from PRC Enterprise Income Tax	(16)	(16)
Exchange adjustment	195	(1,914)
At 31 December	(69,657)	(64,880)
Analysed for reporting propose as:		
Tax recoverable	151	151
Tax payable	(69,808)	(65,031)
	(69,657)	(64,880)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

7. Directors' And Chief Executive's Emoluments

Directors' emoluments disclosed pursuant to section 78 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622), with reference to section 161 of the predecessor Hong Kong Companies Ordinance (Cap. 32), and the chief executive's remuneration are as follows:

	Year ended 31 December 2014					
	Fees	Salaries, allowances and other benefits	Retirement scheme contributions	Sub-Total	Share-based payments	Total
		in kind			(note v)	
HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Executive directors						
Luo Rui (<i>Chief executive officer</i>)	163	853	67	1,083	4,236	5,319
Guan Xue Ling	163	303	-	466	-	466
Cheung Chai Hong (note i)	148	-	-	148	-	148
Non-executive directors						
Cheung Siu Lam (<i>Chairman</i>) (note ii)	-	2,978	17	2,995	-	2,995
Chan Yuk Ming (<i>Vice chairman</i>) (note ii)	-	949	17	966	-	966
Lo Wan (note iii)	15	-	-	15	-	15
Tao Ye	89	-	-	89	-	89
Independent non-executive directors						
Wang Jian Sheng	76	-	-	76	-	76
Chan Chun Keung	89	-	-	89	-	89
Tsang Kwok Wai	105	-	-	105	-	105
Liu Hui (note iv)	20	-	-	20	-	20
	868	5,083	101	6,052	4,236	10,288

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

7. Directors' And Chief Executive's Emoluments (Continued)

	Year ended 31 December 2013					
	Fees HK\$'000	Salaries, allowances and other benefits in kind HK\$'000	Retirement scheme contributions HK\$'000	Sub-Total HK\$'000	Share-based payments HK\$'000	Total HK\$'000
Executive directors						
Cheung Siu Lam (<i>Chairman</i>)	-	4,006	15	4,021	-	4,021
Chan Yuk Ming (<i>Vice chairman</i>)	-	939	15	954	-	954
Luo Rui (<i>Chief executive officer</i>) (note i)	15	571	67	653	-	653
Guan Xue Ling (note i)	15	116	-	131	-	131
Non-executive directors						
Lo Wan	40	-	-	40	-	40
Tao Ye	42	155	28	225	-	225
Independent non-executive directors						
Wang Jian Sheng	40	-	-	40	-	40
Chan Chun Keung	40	-	-	40	-	40
Tsang Kwok Wai	80	-	-	80	-	80
Liu Hui (note iv)	40	-	-	40	-	40
	312	5,787	125	6,224	-	6,224

Notes:

- i) These persons were appointed as the directors of the Company during the years ended 31 December 2014 and 2013. The amounts for the relevant years represented the remuneration of these directors from the date of appointment.
- ii) Mr. Cheung Siu Lam and Mr. Chan Yuk Ming were re-designated from executive directors to non-executive directors on 20 May 2014.
- iii) Ms. Lo Wan resigned as non-executive director on 20 May 2014. The amount for the year represented the remuneration of the director from 1 January 2014 to the date of resignation.
- iv) Mr. Liu Hui resigned as independent non-executive director on 30 June 2014. The amount for the year represented the remuneration of the director from 1 January 2014 to the date of resignation.
- v) These represents the estimated value of share options granted to a director under the Company's share option scheme. The value of these share options is measured according to the Group's accounting policy for share-based payments transactions as set out in note 2(q)(iii).

The details of these benefits in kind, including the principal terms and number of options granted, are disclosed under the paragraph "Share Option Scheme" in the directors' report and note 36.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

7. Directors' And Chief Executive's Emoluments (Continued)

During the years ended 31 December 2014 and 2013, no emoluments were paid by the Group to any of the directors as an inducement to join or upon joining the Group or as compensation for loss of office. There was no arrangement under which a director waived or agreed to waive any remuneration during the years ended 31 December 2014 and 2013.

8. Individuals with Highest Paid Emoluments

Of the five individuals with the highest emoluments in the Group, three (2013: three) were directors of the Company whose emoluments are disclosed in note 7. The aggregate of the emoluments in respect of the other two (2013: two) individuals were as follows:

	2014 HK\$'000	2013 HK\$'000
Salaries, allowances and other benefits	1,480	1,410
Retirement scheme contributions	34	30
	1,514	1,440

The emoluments of the two (2013: two) individuals with the highest emoluments are within the following bands:

	Number of individuals	
	2014	2013
HK\$Nil up to HK\$1,000,000	2	2

During the year ended 31 December 2014 and 2013, no emoluments were paid to any of the five highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

9. Profit Attributable to Equity Shareholders of the Company

The consolidated profit attributable to equity shareholders of the Company includes a loss of HK\$29,691,000 (2013: loss of HK\$42,242,000) which has been dealt with in the financial statements of the Company.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

9. Profit Attributable to Equity Shareholders of the Company *(Continued)*

Reconciliation of the above amount to the Company's loss for the year.

	2014 HK\$'000	2013 HK\$'000
Amount of consolidated profit/(loss) attributable to equity shareholders dealt with in the Company's financial statements	(29,691)	(42,242)
Final dividends from subsidiaries attributable to the profits of the previous financial years, approved during the year	13,909	–
Company's loss for the year (note 35)	(15,782)	(42,242)

10. Dividend

The directors recommend the payment of a final dividend of HK2.2 cents per share for the year ended 31 December 2014 (2013: HK1.0 cent per share), totalling HK\$75,462,000 (2013: HK\$34,291,000). The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

11. Earnings Per Share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of HK\$293,634,000 (2013: HK\$237,478,000) and the weighted average number of 3,342,447,980 ordinary shares (2013: 3,064,612,374 ordinary shares) in issue during the year, calculated as follows:

(i) Profit attributable to equity shareholders of the Company

	2014 HK\$'000	2013 HK\$'000
Profit attributable to equity shareholders	293,634	237,478

(ii) Weighted average number of ordinary shares (basic)

	2014 Number of Shares	2013 Number of Shares
Issued ordinary shares at 1 January	3,129,086,336	2,997,002,336
Effect of convertible note converted	–	37,233,600
Effect of share options exercised	484,932	30,376,438
Effect of Top-up placement	212,876,712	–
Weighted average number of ordinary shares at 31 December	3,342,447,980	3,064,612,374

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

11. Earnings Per Share (Continued)

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the profit attributable to equity shareholders of the Company of HK\$291,643,000 (2013: HK\$237,478,000) and the weighted average number of ordinary shares of 3,419,494,030 shares (2013: 3,084,113,830 shares), calculated as follows:

(i) Profit attributable to equity shareholders of the Company (diluted)

	2014 HK\$'000	2013 HK\$'000
Profit attributable to equity shareholders	293,634	237,478
Effect of gain recognised on convertible note	(1,991)	–
Profit attributable to equity shareholders (diluted)	291,643	237,478

(ii) Weighted average number of ordinary shares (diluted)

	2014 Number of Shares	2013 Number of Shares
Weighted average number of ordinary shares (basic) at 31 December	3,342,447,980	3,064,612,374
Effect of deemed issue of shares under the Company's share option scheme	13,417,398	19,501,456
Effect of conversion of convertible note	63,628,652	–
Weighted average number of ordinary shares (diluted) at 31 December	3,419,494,030	3,084,113,830

Note: During the year ended 31 December 2013, the computation of diluted earnings per share did not assume the exercise of the Company's outstanding convertible note since the conversion would result in an increase in diluted earnings per share.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

12. Property, Plant and Equipment Group

	Leasehold land and building held for own use carried at cost HK\$'000	Leasehold improvements HK\$'000	Motor vehicles HK\$'000	Furniture and equipment HK\$'000	Total HK\$'000
Cost					
At 1/1/2013	349	7,076	7,089	2,788	17,302
Additions	-	238	-	428	666
Disposals	(349)	-	-	(326)	(675)
Exchange adjustment	-	213	73	86	372
At 31/12/2013 and 1/1/2014	-	7,527	7,162	2,976	17,665
Additions	-	207	1,725	1,091	3,023
Disposals	-	-	-	(1,435)	(1,435)
Exchange adjustment	-	(24)	(2)	(13)	(39)
At 31/12/2014	-	7,710	8,885	2,619	19,214
Accumulated depreciation and impairment					
At 1/1/2013	349	2,684	2,043	1,494	6,570
Charge for the year	-	2,366	1,389	742	4,497
Disposals	(349)	-	-	(321)	(670)
Exchange adjustment	-	109	26	44	179
At 31/12/2013 and 1/1/2014	-	5,159	3,458	1,959	10,576
Charge for the year	-	2,376	1,791	773	4,940
Disposals	-	-	-	(1,435)	(1,435)
Exchange adjustment	-	(8)	-	(7)	(15)
At 31/12/2014	-	7,527	5,249	1,290	14,066
Carrying amounts					
At 31/12/2014	-	183	3,636	1,329	5,148
At 31/12/2013	-	2,368	3,704	1,017	7,089

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

12. Property, Plant and Equipment *(Continued)*

Company

	Leasehold improvements HK\$'000	Motor vehicles HK\$'000	Furniture and equipment HK\$'000	Total HK\$'000
Cost				
At 1/1/2013	378	4,179	596	5,153
Additions	–	–	10	10
At 31/12/2013 and 1/1/2014	378	4,179	606	5,163
Additions	185	–	504	689
At 31/12/2014	563	4,179	1,110	5,852
Accumulated depreciation				
At 1/1/2013	378	1,224	531	2,133
Charge for the year	–	682	26	708
At 31/12/2013 and 1/1/2014	378	1,906	557	2,841
Charge for the year	3	682	28	713
At 31/12/2014	381	2,588	585	3,554
Carrying amounts				
At 31/12/2014	182	1,591	525	2,298
At 31/12/2013	–	2,273	49	2,322

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

13. Interests in Subsidiaries

	Company	
	2014 HK\$'000	2013 HK\$'000
Unlisted shares, at cost	63,669	63,669

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group:

Name	Place of incorporation/ registration and operations	Particulars of issued and paid-up capital/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
K.P.B. Group Holdings Limited	British Virgin Islands ("BVI")/Hong Kong	Ordinary US\$12	100%	–	Investment holding
北京華夏興業融資擔保有限公司 (note j)	PRC	Registered capital RMB140,122,680	100%	–	Provision of loan guarantee service
Charter Merit Limited	Hong Kong	2 ordinary shares	–	100%	Holding of a club membership
Charter Paradise Limited	Hong Kong	2 ordinary shares	–	100%	Holding of a club membership
K.P.A. Company Limited	Hong Kong	2 ordinary shares and 2 non-voting deferred shares	–	100%	Investment holding
K.P.B. Asset Holdings Limited	BVI/Hong Kong	Ordinary US\$6	–	100%	Investment holding
K.P.B. Marketing Limited	BVI/Hong Kong	Ordinary US\$2	–	100%	Investment holding
K.P.B. – T.C. Holdings Limited	BVI/Hong Kong	Ordinary US\$1	–	100%	Investment holding
K.P.B. Trading Limited	BVI/Hong Kong	Ordinary US\$4	–	100%	Investment holding
K.P.I. Development Limited	Hong Kong	2 ordinary shares and 10,000 non-voting deferred shares	–	100%	Trading of financial securities
K.P.I. Industries Limited	Hong Kong	2 ordinary shares and 2 non-voting deferred shares	–	100%	Investment holding
K.P.I. International Trading Company Limited	Hong Kong	2 ordinary shares and 2 non-voting deferred shares	–	100%	Holding of a club membership and trading of financial securities

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

13. Interests in Subsidiaries (Continued)

Name	Country of incorporation/ registration and operations	Nominal value of issued and paid-up share/ registered share capital	Percentage of equity attributable to the Company		Principal activities
			Direct	Indirect	
K.P.I. Convenience Retail Company Limited	BVI/Hong Kong	Ordinary US\$50,000	-	100%	Investment holding
K.P.I. Property Investment Company Limited	Hong Kong	2 ordinary shares	-	100%	Investment holding
K.P. Financial Group Limited	BVI/Hong Kong	Ordinary US\$1	-	100%	Investment holding
KP Financial Holdings Limited	Hong Kong	1 ordinary share	-	100%	Investment holding
KP Financial Services Limited	Hong Kong	1 ordinary share	-	100%	Money lending business
QL Finance Company Limited	Hong Kong	1 ordinary share	-	100%	Money lending business
Qian Long Assets Management Company Limited	Hong Kong	1 ordinary share	-	100%	Provision of consultancy services
北京嘉鑫銘物業管理有限公司 (note e)	PRC	Registered capital US\$3,000,000	-	100%	Provision of property management services
北京中金投財務諮詢有限公司 (note f)	PRC	Registered capital US\$300,000	-	100%	Provision of financing consultancy services
北京中金投商業經紀有限公司 (note g)	PRC	Registered capital RMB500,000	-	100%	Provision of rental service
北京中金港資產管理有限公司 (note h)	PRC	Registered capital RMB500,000	-	100%	Provision of financing consultancy services
北京惠豐融金融小額貸款有限公司 (note i)	PRC	Registered capital RMB50,000,000	-	70%	Provision of short-term financing services
海口港佳貿易有限公司 ("海口港佳") (note a)	PRC	Registered capital US\$25,400,000	-	100%	Investment holding
北京中嘉利通商貿有限公司 (note b)	PRC	Registered capital RMB30,000,000	-	100%	Investment holding
北京中港佳鄰商業有限公司 (note c)	PRC	Registered capital US\$13,000,000	-	100%	Provision of financing consultancy services
北京中金投典當行有限公司 (note d)	PRC	Registered capital RMB150,000,000	-	100%	Provision of short-term financing services
上海安金金融信息服務有限公司 (note k)	PRC	Registered capital RMB500,000	-	100%	Provision of financing consultancy services
北京融信嘉資產管理有限公司 (note l)	PRC	Registered capital RMB5,000,000	-	100%	Provision of financing consultancy services

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

13. Interests in Subsidiaries (Continued)

Notes:

- a) 海口港佳 is a wholly-foreign-owned enterprise established in the PRC to operate for 20 years up to August 2015.
- b) 北京中嘉利通商貿易有限公司 is a wholly-foreign-owned enterprise established in the PRC to operate for 15 years up to March 2023.
- c) 北京中港佳鄰商業有限公司 is a wholly-foreign-owned enterprise established in the PRC to operate for 20 years up to March 2028.
- d) 北京中金投典當行有限公司 is a limited liability company established in the PRC. During the year ended 31 December 2014, its registered capital had been increased to RMB150,000,000 from RMB80,000,000.
- e) 北京嘉鑫銘物業管理有限公司 is a wholly-foreign-owned enterprise established in the PRC to operate for 20 years up to December 2030.
- f) 北京中金投財務諮詢有限公司 is a wholly-foreign-owned enterprise established in the PRC to operate for 20 years up to December 2030.
- g) 北京中金投商業經紀有限公司 is a limited liability company established in the PRC.
- h) 北京中金港資產管理有限公司 is a limited liability company established in the PRC.
- i) 北京惠豐融金小額貸款有限公司 is a limited liability company established in the PRC.
- j) 北京華夏興業融資擔保有限公司 is a wholly-foreign-owned enterprise established in the PRC to operate for 20 years up to June 2031.
- k) 上海安金金融信息服務有限公司 is a limited liability company established in the PRC.
- l) 北京融信嘉資產管理有限公司 is a limited liability company established in the PRC.
- m) In prior years, the Group held 72% equity interests in K.P.I. Convenience Retail Company Limited, which held 100% equity interests in 北京中港佳鄰商業有限公司. During the year ended 31 December 2014, the Group acquired the remaining 28% equity interests in K.P.I. Convenience Retail Company Limited from its non-controlling shareholder, which is Mr. Cheung Siu Lam, the Chairman of the Company, at a consideration of HK\$2,461,000. The directors of the Company are of the opinion that such transaction was conducted on mutually-agreed terms in the ordinary course of business.
- n) The Group had no subsidiaries which have material non-controlling interests for the years ended 31 December 2014 and 2013.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

14. Goodwill

	Group	
	2014	2013
	HK\$'000	HK\$'000
Cost and carrying amount		
At 1 January	656,730	622,703
Exchange adjustment	(2,202)	34,027
At 31 December	654,528	656,730

Impairment test for cash-generating unit containing goodwill

Goodwill is allocated to the Group's cash-generating unit ("CGU") of short-term financing business in the PRC.

The recoverable amount of the CGU is determined based on the value in use calculations, which are based on a business valuation report on the CGU prepared by an independent qualified professional valuer, Peak Vision Appraisals Limited (2013: Peak Vision Appraisals Limited). These calculations use cash flow projections based on financial budgets approved by management covering a three-year period (2013: three-year period). Cash flows beyond the three-year period (2013: three-year period) are extrapolated using an estimated growth rate stated below which is by reference to the forecasts based on the funds available for the Group's loan financing business and does not exceed the forecasts included in industry reports. The growth rates used do not exceed the long-term average growth rates for the business in which the CGU operates. The cash flows are discounted using a discount rate stated below. The discount rates used are pre-tax and reflect specific risks relating to the relevant operating segment.

Key assumptions used for the value-in-use calculations are as follows:

	2014	2013
Growth rate	3%	3%
Gross margin	80%	80%
Discount rate	10.87%	15.72%

Management determined the budgeted gross margin based on past performance and its expectation for market development.

The directors believe that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the CGU to exceed its recoverable amount.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

15. Interest in An Associate

	Group		Company	
	2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000
Unlisted shares, at cost	–	–	3,900	3,900
Share of net assets	3,856	3,860	–	–
	3,856	3,860	3,900	3,900

The following list contains the particulars of the associate, which is an unlisted corporate entity whose quoted market price is not available.

Name of associate	Place of incorporation and business	Particulars of registered capital	Proportion of ownership interest		Principal activity
			Group's effective interest	Held by the Company	
北京中匯豐源融資租賃有限公司 (see note below)	The PRC	Registered capital USD10,000,000	25%	25%	Not yet commence operation

Note: 北京中匯豐源融資租賃有限公司 is established in the PRC in the form of sino-foreign equity enterprise.

The Company shall contribute an amount of US\$2,500,000 as its capital contribution, representing 25% equity interest in the associate. As at 31 December 2014 and 2013, the Company had contributed US\$500,000 (equivalent to approximately HK\$3,900,000). The Company has an obligation to settle the remaining amount of US\$2,000,000 (equivalent to approximately HK\$15,600,000).

The above associate is accounted for using the equity method in the consolidated financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

15. Interest in An Associate (Continued)

Summarised financial information of the above associate, adjusted for any differences in accounting policies, and reconciled to the carrying amounts in the consolidated financial statements, is disclosed below:

	北京中匯豐源 融資租賃有限公司	
	2014 HK\$'000	2013 HK\$'000
Gross amounts of the associate's		
Current assets	15,424	15,440
Equity	(15,424)	(15,440)
Revenue	(1)	(13)
Loss for the year	16	159
Reconciled to the Group's interest in the associate		
Gross amount of net assets of the associate	15,424	15,440
Group's effective interest	25%	25%
Group's share of net assets of the associate	3,856	3,860
Carrying amount in the consolidated financial statements	3,856	3,860

16. Available-for-Sale Investments

	Group	
	2014 HK\$'000	2013 HK\$'000
Listed securities, at fair value – Hong Kong	29,071	42,002
Unlisted investments:		
– Golf club memberships, at cost (see note below)	2,761	2,761
– Long-term equity interest, at cost	–	773
Total	31,832	45,536

Note: As at 31 December 2013 and 2014, the Group's investments in golf club memberships were not stated at fair value but at cost because it did not have a quoted market price in an active market and the fair value cannot be reliably measured. No impairment is recognised since there is no objective evidence that investments in golf club memberships will be impaired.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

17. Accounts Receivable

	Group	
	2014	2013
	HK\$'000	HK\$'000
Accounts receivable	20,631	22,607

All of the Group's accounts receivable were arising from the PRC and are denominated in Renminbi ("RMB") and are expected to be recovered within one year.

a) Ageing analysis

As at the end of the reporting period, the ageing analysis of accounts receivable, based on the invoice date, is as follows:

	2014	2013
	HK\$'000	HK\$'000
Within 30 days	8,067	4,205
31 – 90 days	7,401	5,559
Over 90 days	5,163	12,843
	20,631	22,607

Accounts receivable are due on the date of billing. Further details on the Group's credit policy are set out in the note 41(a).

b) Accounts receivable that are not impaired

	2014	2013
	HK\$'000	HK\$'000
Past due but not impaired	20,631	22,607

Accounts receivable that was past due but not impaired relates to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

18. Short-Term Loans Receivables

	Group	
	2014	2013
	HK\$'000	HK\$'000
Pawn loan receivables	302,724	182,201
Other short-term loans receivables	1,863,350	1,714,022
	2,166,074	1,896,223
Allowance for doubtful debts		
– Collectively assessed (see note b below)	(3,810)	(2,545)
	2,162,264	1,893,678

Approximately HK\$2,086,075,000 (2013: HK\$1,893,678,000) of the Group's short-term loans receivables were arising from the PRC and are denominated in RMB. The short-term loans receivables in the PRC carry interest plus service charge at a monthly effective rate of 1.0% to 4.5% (2013: 0.9% to 4.6%), and the short-term loans receivables in Hong Kong carry interest at a monthly effective rate of 1.5% to 3.0% (2013: nil). As at 31 December 2014 and 2013, in the opinion of the Company's directors, the Group held collateral with value not less than the carrying amount of the pawn loan receivables and other short-term loans receivables.

In accordance with section 78 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622), with reference to section 161B of the predecessor Hong Kong Companies Ordinance (Cap. 32), a loan receivable from 中金佳晟投資基金管理(北京)有限公司(“中金佳晟”), of which certain directors of the Company are its key management personnel, was included in other short-term loans receivables as at 31 December 2014. The carrying amount of loan receivable from 中金佳晟 as at 31 December 2014 was approximately HK\$128,085,000, the loan carried service charge at a monthly effective rate of 1.8% and in the opinion of the Company's directors, the Group held collateral with value not less than the carrying amount of the loan. The maximum outstanding balance due from 中金佳晟 during the year was HK\$151,342,000 (2013: HK\$nil). The directors of the Company are of the opinion that such transaction was conducted on mutually agreed terms in the ordinary course of business. The loan receivable was fully settled after the end of reporting period.

A typical short-term loan generally has a term of 30 days to 365 days. All of the short-term loans receivables are expected to be recovered within one year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

18. Short-Term Loans Receivables (Continued)

a) Maturity profile

As at the end of the reporting period, the maturity profile of short-term loans receivables, based on maturity date, is as follows:

	2014			2013		
	Pawn loan receivables HK\$'000	Other short- term loan receivables HK\$'000	Total HK\$'000	Pawn loan receivables HK\$'000	Other short- term loan receivables HK\$'000	Total HK\$'000
Due within 1 month or on demand	15,009	60,729	75,738	58,637	296,276	354,913
Due after 1 month but within 3 months	13,437	403,923	417,360	47,912	658,332	706,244
Due after 3 months but within 6 months	39,322	354,173	393,495	75,652	604,912	680,564
Due after 6 months	234,956	1,044,525	1,279,481	-	154,502	154,502
Allowance for doubtful debts – Collectively assessed	(3,027)	(783)	(3,810)	(1,822)	(723)	(2,545)
	299,697	1,862,567	2,162,264	180,379	1,713,299	1,893,678

b) Impairment of short-term loans receivables

Impairment losses in respect of short-term loans receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against short-term loans receivables directly (see note 2(k)(i)).

The movements in allowance for doubtful debts, which are collectively assessed, during the year is as follows:

	2014			2013		
	Pawn loan receivables HK\$'000	Other short- term loan receivables HK\$'000	Total HK\$'000	Pawn loan receivables HK\$'000	Other short- term loan receivables HK\$'000	Total HK\$'000
At 1 January	1,822	723	2,545	1,534	365	1,899
Impairment loss recognised	1,206	63	1,269	237	341	578
Exchange adjustment	(1)	(3)	(4)	51	17	68
At 31 December	3,027	783	3,810	1,822	723	2,545

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

18. Short-Term Loans Receivables (Continued)

c) Analysed by credit quality

	2014			2013		
	Pawn loan receivables HK\$'000	Other short- term loan receivables HK\$'000	Total HK\$'000	Pawn loan receivables HK\$'000	Other short- term loan receivables HK\$'000	Total HK\$'000
Short-term loans receivables that are not impaired						
- Neither past due nor impaired	-	1,777,638	1,777,638	-	1,560,643	1,560,643
- Past due but not impaired	-	7,372	7,372	-	81,072	81,072
	-	1,785,010	1,785,010	-	1,641,715	1,641,715
Short-term loans receivables that are assessed for impairment collectively						
- Not past due	302,724	78,340	381,064	182,201	72,307	254,508
- Past due	-	-	-	-	-	-
Allowance for doubtful debts	(3,027)	(783)	(3,810)	(1,822)	(723)	(2,545)
	299,697	77,557	377,254	180,379	71,584	251,963
Total	299,697	1,862,567	2,162,264	180,379	1,713,299	1,893,678

Short-term loans receivables that were neither past due nor impaired relate to recognised and creditworthy borrowers for whom there was no recent history of default.

Short-term loans receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

19. Interests Receivable

	Group	
	2014 HK\$'000	2013 HK\$'000
Interests receivable	14,443	15,635

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

19. Interests Receivable (Continued)

Interests receivable are due on the date of billing (or maturity date of the loan receivables, if earlier).

Approximately HK\$13,706,000 (2013: HK\$15,635,000) of the Group's interests receivable were arising from the PRC and are denominated in RMB. All of the interests receivable are expected to be recovered within one year.

As at 31 December 2014, included in interests receivable was approximately HK\$11,503,000 due from 中金佳晟. Details of the transaction are set out in note 18 to the financial statements. The interest receivable was fully settled after the end of reporting period.

a) Maturity profile

As at the end of the reporting period, the maturity profile of interests receivable, based on invoice date (or maturity date of loans receivables, if earlier), is as follows:

	2014 HK\$'000	2013 HK\$'000
Due within 1 month or on demand	14,443	15,321
Due after 1 month but within 3 months	-	-
Due after 3 months but within 6 months	-	314
	14,443	15,635

b) Interests receivable that are not impaired

	2014 HK\$'000	2013 HK\$'000
Neither past due nor impaired	2,060	342
Past due but not impaired	12,383	15,293
	14,443	15,635

Interests receivable that were neither past due nor impaired relate to a number of customers for whom there was no recent history of default.

Interests receivable that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

20. Forfeited Collateral Held for Sales

- a) Forfeited collateral held for sales in the consolidated statement of financial position comprise:

	Group	
	2014	2013
	HK\$'000	HK\$'000
Forfeited collateral held for sales	–	533

Note: Forfeited collateral held for sales mainly include gold and jewellery.

- b) The analysis of the amount of forfeited collateral held for sales recognised as an expense and included in the consolidated statement of profit or loss is as follow:

	2014	2013
	HK\$'000	HK\$'000
Carrying amount of forfeited collateral sold	1,078	4,873

21. Other Receivables, Deposits and Prepayments

	Group		Company	
	2014	2013	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Other receivables	4,437	2,584	108	128
Amounts due from related parties	380	2,134	–	–
Divided receivable	–	–	13,909	–
	4,817	4,718	14,017	128
Prepayments	1,334	1,260	366	365
Utility and sundry deposits	1,741	1,834	778	769
	7,892	7,812	15,161	1,262

All of the other receivables (including amounts due from related parties) and prepayments are expected to be recovered or recognised as expense within one year. Utility and sundry deposits of approximately HK\$1,092,000 are expected to be recovered or recognised as expense after more than one year.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

21. Other Receivables, Deposits and Prepayments (Continued)

The details of the amounts due from related parties are as follows:

Name	Notes	2014 HK\$'000	2013 HK\$'000
北京萬方達隆物業管理有限公司 (“達隆物業”)	(a), (b)	380	382
北京嘉澤潤豐投資諮詢有限公司 (“北京嘉澤潤豐”)	(a), (c)	—	1,752
		380	2,134

Notes:

- The amounts due from related parties are unsecured, non-interest-bearing and have no fixed terms of repayment.
- Mr. Cheung Siu Lam, the non-executive director of the Company, is the legal representative of 達隆物業. The amount represented fund advanced to 達隆物業. The maximum outstanding balance due from 達隆物業 during the year was HK\$382,000 (2013: HK\$7,123,000).
- Mr. Cheung Siu Lam, the non-executive director of the Company, is a key management personnel of 北京嘉澤潤豐. The amount represented consultancy income receivables from 北京嘉澤潤豐. The maximum outstanding balance due from 北京嘉澤潤豐 during the year was HK\$1,752,000 (2013: HK\$1,752,000).

22. Pledged Bank and Security Deposits Paid

Security deposits of RMB24,048,000 (equivalent to approximately HK\$30,484,000) (2013: RMB50,621,000 (equivalent to approximately HK\$64,385,000)) are placed by the Group with the financial institutions according to the requirements of the financial institutions for credit guarantees that the Group provides to third parties for their borrowings from the financial institutions.

Pledged bank deposits of RMB40,600,000 (equivalent to approximately HK\$51,466,000) (2013: RMB30,840,000 (equivalent to approximately HK\$39,225,000)) are placed by the Group with a bank to secure a bank loan of RMB40,000,000 (equivalent to approximately HK\$50,705,000) (2013: RMB15,000,000 (equivalent to approximately HK\$19,078,000)).

Pledged bank deposits of RMB51,546,000 (equivalent to approximately HK\$64,433,000) (2013:Nil) are placed by the Group with a bank to secure a short-term borrowing from the bank of RMB50,000,000 (equivalent to approximately HK\$63,382,000) (2013:Nil) which was assigned to an independent third party during the year (note 25(f)).

All of the pledged bank and security deposits paid are expected to be recovered within one year as at 31 December 2014. As at 31 December 2013, RMB5,000,000 (equivalent to approximately HK\$6,359,000) of pledged bank and security deposits paid are expected to be recovered after more than one year.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

23. Amounts Due from/(to) Subsidiaries

The amounts due from/(to) subsidiaries are unsecured, non-interest-bearing and have no fixed terms of repayment.

24. Cash and Cash Equivalents

	Group	
	2014	2013
	HK\$'000	HK\$'000
Cash at financial institutions and on hand	153,014	103,288
Cash and cash equivalents in the consolidated statements of financial position and cash flows	153,014	103,288

	Company	
	2014	2013
	HK\$'000	HK\$'000
Cash at financial institutions	2,091	8,673
Cash and cash equivalents in the statement of financial position	2,091	8,673

Deposits with financial institutions carry interest at market rates ranging from 0.01% to 0.385% (2013: 0.02% to 0.385%) per annum.

Cash at financial institutions as at 31 December 2014 include HK\$147,675,000 (2013: HK\$70,174,000) equivalent placed with financial institutions in the PRC, the remittance of which are subject to relevant rules and regulations of foreign exchange control promulgated by the government of the PRC.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

25. Short-Term Borrowings

	2014 HK\$'000	2013 HK\$'000
Entrusted loan (note a)	65,759	–
Borrowings under a strategic cooperation and investment agreements (note b)	196,621	317,392
Borrowings under contractual agreements with 愛搜奇 (note c)	83,838	–
Borrowings from Employees (note d)	21,135	–
Other borrowings (note e and f)	63,382	98,648
	430,735	416,040

Notes:

- a) As at 31 December 2014, the Group had an outstanding entrusted loan which was borrowed through a bank in the PRC. The entrusted loan was not secured by any assets or guarantees. As at 31 December 2014, the outstanding principal of the entrusted loan was approximately HK\$63,382,000 and the effective interest rate of the entrusted loan was 15% per annum.

The amount of interest expense incurred during the year in relation to entrusted loans amounting to HK\$2,602,000 is included in finance costs (note 5(a)).

- b) 北京中金港資產管理有限公司 (“Beijing Zhongjingang”), a subsidiary of the Company, entered into a strategic cooperation agreement and investment agreement (the “Agreements”) with two independent third parties, Wanjia Co-win Asset Management Co. Ltd. (萬家共贏資產管理有限公司) (“Wanjia Co-win”) and Kunshan Noah Xingguang Investment Management (昆山諾亞星光投資管理有限公司) (“Noah Xingguang”) for the development of securitization business pursuant to which Wanjia Co-win shall establish asset management schemes on behalf of Beijing Zhongjingang with durations of one to two years of about RMB500 million in stages using the Group’s short-term loans receivables as assets for securitization. In this regard, the Group shall assign all its rights and benefits in its receivables from its financing services into such asset management schemes and shall guarantee the due recoverability of such receivables. At the expiry of the asset management schemes, Beijing Zhongjingang shall repay all the proceeds from the schemes to Wanjia Co-win. During the year ended 31 December 2014, the Group had a net repayment of approximately HK\$116,990,000 to the scheme (2013: net proceeds of HK\$307,910,000 from the scheme), with financing cost measured at an annualized rate of 11.5% (2013: 11.5%), which include a service fee of 0.7% and 1.3% to 1.8% payable to Wanjia Co-win and Noah Xingguang respectively.

In addition, the Company agreed to provide guarantee for Beijing Zhongjingang in respect of the investment agreement in case Beijing Zhongjingang fail to make repayment to Wanjia Co-win at the expiry of those asset management schemes. As at the end of the reporting period, the directors do not consider it probable that a claim will be made against the Company under this guarantee. The maximum liability of the Company at the end of the reporting period under the single guarantee issued is the outstanding amount of this facility drawn down by Beijing Zhongjingang of approximately HK\$197,368,000 (2013: HK\$322,367,000). The Company has not recognised any deferred income in respect of this guarantee as its fair value at the end of the reporting period was insignificant.

At the end of the reporting period, the borrowings under the strategic cooperation and investment agreements were secured by certain of short-term loans receivables of approximately HK\$405,200,000 (2013: HK\$609,787,000).

The amount of interest expense incurred during the year amounting to HK\$34,136,000 (2013: HK\$9,336,000) is included in finance costs (note 5(a)).



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

25. Short-Term Borrowings (Continued)

Notes: (Continued)

- c) In September 2014, Beijing Zhongjingang and 北京融信嘉資產管理有限公司 (“融信嘉”), a subsidiary of the Company, separately entered into a contracted agreement with 愛搜奇(北京)科技有限公司 (“愛搜奇”), an independent third party, under which 愛搜奇 would establish an online service platform to invite investors to invest in the short-term loans receivable of the Group. In this regard, the Group shall assign all its rights and benefits in the invested receivables to the investors and shall guarantee the due recoverability of such receivables. At the expiry of the investment period, Beijing Zhongjingang and 融信嘉 shall repay all the proceeds received to the investors. During the year ended 31 December 2014, the arrangement raised a net proceeds of approximately HK\$82,888,000, with financing cost measured at an annualized rate of 11.5%.

At the end of the reporting period, the fund raised under the arrangement were secured by certain of short-term loans receivables of approximately HK\$84,156,000.

The amount of interest expense incurred during the year amounting to HK\$1,750,000 is included in finance costs (note 5(a)).

- d) During the year ended 31 December 2014, the Group borrowed funds from its employees (together with their relatives or friends, the “Employees”) based in Hong Kong for the development of its money lending business. The Group raised net proceeds of approximately HK\$21,000,000, with financing cost measured at an annualized rate of 10%. The borrowings from the Employees were not secured by any assets or guarantees.

The amount of interest expense incurred during the year amounting to HK\$135,000 is included in finance costs (note 5(a)).

- e) In January 2013, Beijing Zhongjingang entered into a contractual and a financial arrangement agreements with 中金佳晟. Pursuant to the contractual agreement, 中金佳晟 will provide funding with maximum amount of RMB400 million to Beijing Zhongjingang for the short-term financing services. The amount was unsecured and non-interest-bearing. The balance due to 中金佳晟 as at 31 December 2013 amounting to HK\$98,648,000 and the balance was fully prepaid during the year ended 31 December 2014.

- f) As at 31 December 2014, other borrowings represents on amount due to an independent third party. The loan was originally borrowed from a bank under a loan agreement but the rights and benefits of the loan were transferred by the bank to the independent third party under a contractual agreement between the two parties during the year. As at 31 December 2014, the effective interest rate of the loan was 2.585% per annum and the loan was secured by a bank deposit of HK\$64,433,000 (note 22).

The amount of interest expense incurred during the year amounting to HK\$621,000 is included in finance costs (note 5(a)).

- g) All of short-term borrowings are denominated in RMB and carried at amortised cost.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

26. Bank Loans

At the end of the reporting period, all the bank loans of the Group, which were all obtained in the PRC and denominated in RMB, were repayable as follows:

	Group	
	2014	2013
	HK\$'000	HK\$'000
Current liabilities		
Within 1 year or on demand	68,452	22,894
Non-current liabilities		
After 1 year but within 2 years	–	17,806
	68,452	40,700

All of bank loans are denominated in RMB and carried at amortised cost. None of the non-current interest-bearing bank loans is expected to be settled within one year.

The ranges of effective interest rates on the Group's bank loans are as follows:

	Group	
	2014	2013
	%	%
Effective interest rates:		
Bank loans	5.04%-6.95% per annum	5.04%-6.95% per annum

As at 31 December 2014, bank loans of HK\$17,747,000 (2013: HK\$21,622,000) were secured by corporate guarantee from related parties, third parties and personal guarantee from a director of the Company.

As at 31 December 2014, bank loans of HK\$50,705,000 (2013: HK\$19,078,000) were secured by a bank deposit of HK\$51,466,000 (2013: HK\$39,225,000) (note 22).

Note:

All of the Group's bank loans are subject to the fulfilment of covenants commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants, the bank loans would become payable on demand. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in note 41(b). As at 31 December 2014, none of the covenants relating to the bank loans had been breached (2013: Nil).



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

27. Convertible Note

On 26 March 2013, the Company issued a 10% guaranteed convertible bonds due 2015/16 in the aggregate principal amount of US\$12,000,000 (equivalent to approximately HK\$93,600,000) (the “Convertible Note”) to an independent third party (the “Holder”). The Convertible Note is denominated in US dollars (“US\$”) and carried an interest of 10% per annum payable semi-annually in arrears. The Convertible Note is (i) secured by a fixed legal mortgage over the Company’s entire shareholding in K.P.B. Group Holdings Limited, a direct wholly-owned subsidiary of the Company and (ii) unconditionally and irrevocably guaranteed by Mr. Cheung Siu Lam, the Chairman and executive director of the Company (as at the date of issue), and Ms Lo Wan, a non-executive director of the Company (as at the date of issue), (together the “Guarantors”).

The Guarantors have agreed to (i) guarantee the due performance of the Company of its obligations under the relevant subscription agreement and convertible bond instrument and (ii) deposit, together with Arbalice Holdings Limited (a company controlled by the Guarantors) a total of 2,032,552,240 shares of the Company held by them into the cash securities trading accounts opened and maintained with a custodian, which is an affiliated company of the Holder and an independent third party.

The principal terms of the Convertible Note are as follows:

(a) *Optional conversion*

The Convertible Note will, at the option of the Holder, be convertible (unless previously redeemed, converted or purchased and cancelled) at any time on and after 26 March 2013 up to (i) the second anniversary of the issue date of the Convertible Note or (ii) the third anniversary of the issue date of the Convertible Note (subject to the prior written agreement by the Company, the Holder and the Guarantors for such extension) into fully paid ordinary shares of the Company (the “Shares”) at an initial conversion price (the “Conversion Price”) of HK\$0.50 per share and a fixed exchange rate of US\$1.00 to HK\$7.757 (the “Prevailing Rate”).

The Conversion Price is subject to adjustment in the manner set out in the relevant convertible bond instrument. According to this convertible bond instrument, the Conversion Price will be reset as follows:

- (i) Upon each and every exercise of the conversion right of the Holder, if the volume weighted average of the closing price of the Shares (the “Weighted Average Market Price”) for the period of 30 consecutive trading days ending on the trading day immediately prior to the date of conversion and multiplied by 110% (the “Conversion Reset Price”) is less than the then current conversion price, the then conversion price will be adjusted to the Conversion Reset Price for and only for the purpose of such exercise, subject to the floor price of HK\$0.50 per share.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

27. Convertible Note *(Continued)*

(a) Optional conversion (Continued)

- (ii) At the option of the Holder, if the Weighted Average Market Price for the period of 30 consecutive trading days ending on the trading day immediately prior to 31 December of a financial year (the "Annual Reset Date") (the "Annual Reset Price") is less than the then current conversion price, the then conversion price will be reset to the Annual Reset Price on the relevant Annual Reset Date, subject to the floor price of HK\$0.50 per share.
- (iii) At the option of the Company, if the Weighted Average Market Price for the period of 30 consecutive trading days ending on the trading day immediately prior to the Annual Reset Date is higher than the Annual Reset Price of the previous financial year, the then conversion price will be reset to the Annual Reset Price of such financial year on the Annual Reset Date, subject to the floor price of HK\$0.50 per share.

(b) Redemption at maturity

Unless previously redeemed, converted or purchased and cancelled as provided herein, the Convertible Note will be redeemed by the Company on:

- (i) the date falling on the second anniversary of the issue date of the Convertible Note at the redemption amount equal to the principal amount of the outstanding Convertible Note together with unpaid accrued interest thereon plus an amount that would yield an internal rate of return of 17% on the outstanding Convertible Note calculated from the issue date of the Convertible Note up to and including the date falling on the second anniversary of the issue date of the Convertible Note; or
- (ii) the date falling on the third anniversary of the issue date of the Convertible Note (subject to the prior written agreement by the Company, the Holder and the Guarantors for such extension) at the redemption amount equal to the principal amount of the outstanding Convertible Note together with unpaid accrued interest thereon plus (1) an amount that would yield an internal rate of return of 17% on the outstanding Convertible Note calculated from the date of issue up to and including the date falling on the second anniversary of the issue date of the Convertible Note and (2) an additional amount that would yield an internal rate of return of 18% on the outstanding Convertible Note calculated from the date immediately following the second anniversary of the issue date of the Convertible Note up to and including the date falling on the third anniversary of issue date of the Convertible Note.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

27. Convertible Note *(Continued)*

(c) Redemption at the option of the Company

On giving not less than 30 days but not more than 60 days' notice to the Holder at any time after expiry of the first anniversary of the issue date of the Convertible Note and prior to the date of maturity, the Company may redeem all or some only of the Convertible Note at a redemption price equal to the principal amount of the outstanding Convertible Note together with unpaid accrued interest thereon plus an amount that would yield an internal rate of return of 17% on the outstanding Convertible Note calculated from the issue date of the Convertible Note up to and including the date fixed for early redemption.

If the Company redeems 50% or more of the principal amount of the outstanding Convertible Note, a written consent of the Holder approved by an ordinary resolution of the Holder must be obtained.

(d) Redemption at the option of the Holder

The Holder will have the right to require the Company to redeem all or some of the Convertible Note at the principal amount of the outstanding Convertible Note together with unpaid accrued interest thereon plus an amount that would yield an internal rate of return of 22% on the outstanding Convertible Note calculated from the issue date of the Convertible Note up to and including the date fixed for such redemption when one of the following events of default occurs:

- (i) there is a change of control of the Company;
- (ii) the Shares cease to be listed or admitted to trading on The Stock Exchange of Hong Kong Limited or, if applicable, the Alternative Stock Exchange; or
- (iii) the other events as mentioned in the announcement of the Company dated 15 March 2013 and the relevant convertible bond instrument.

(e) Compulsory conversion at the option of the Company

The Company will have an one-off right to require the Holder, by giving not less than 30 days but not more than 60 days' prior notice in writing, to exercise the conversion rights for one-quarter of the principal amount of the outstanding Convertible Note, provided that (i) the Company has delivered audited accounts showing that the Company has attained either the 2012 financial targets or the 2013 financial targets to the satisfaction of the Holder and (ii) no event of default specified above having occurred.

During the year ended 31 December 2013, the Company exercised this right to require the Holder to convert one-quarter of the principal amount of the outstanding Convertible Note.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

27. Convertible Note (Continued)

The Convertible Note consists of liability component, conversion option and other embedded derivatives which are not closely related to the host liability contract. As the functional currency of the Company is HK\$, the conversion of the Convertible Note denominated in US\$ and the effect of optional conversion mentioned in part (a) above will not result in settlement by exchange of a fixed amount of cash in HK\$, the functional currency of the Company, for a fixed number of the Company's shares. In accordance with the requirement of HKAS 39 "Financial Instruments – Recognition and Measurement", it was determined that the Convertible Note does not contain any equity component and the entire Convertible Note was designated as "financial liabilities at FVTPL" which requires the Convertible Note to be carried at fair value at the end of the reporting period and the changes in fair values are recognised in the consolidated statement of profit or loss. During the year ended 31 December 2014, a gain on change in its fair value of approximately HK\$108,000 (2013: loss of HK\$35,637,000) together with the loss on translation of the Convertible Note denominated in a foreign currency into functional currency of approximately HK\$170,000 (gain of HK\$516,000) are included in "Other Net Income/(Loss)" in the consolidated statement of profit or loss.

On 26 April 2013, the Company reached the 2012 financial target. So the Company executed its right to request the Holder to convert one-quarter of the principal amount of the Convertible Note in the aggregate principal amount of US\$3,000,000 (equivalent to approximately HK\$23,271,000) at a conversion price of HK\$0.50 per share.

On 20 November 2013, the Holder converted the Convertible Note in aggregate principal amount of US\$3,000,000 (equivalent to HK\$23,271,000) at the conversion price of HK\$0.50 per share.

The Company totally allotted 93,084,000 new ordinary shares in respect of the above two conversions in respect of the year ended 31 December 2013 (see note 34).

On 14 May 2014, the Company redeemed the Convertible Note in the aggregate principal amount of US\$3,000,000 (equivalent to HK\$23,271,000) at its principal amount, which is agreed between the Company and the Holder, resulting in a gain of approximately HK\$2,053,000, which is included in "Other Net Income/(Loss)" in the consolidated statement of profit or loss.

There were no conversion of the Convertible Note during the year ended 31 December 2014.

The Convertible Note was valued at fair value by the management with reference to a valuation carried out by Greater China Appraisal Limited, an independent and recognised international business valuer, on 31 December 2014, at approximately US\$3,447,000 (equivalent to approximately HK\$26,728,000) (2013: approximately US\$7,455,000 (equivalent to approximately HK\$57,802,000)).

Subsequent to 31 December 2014, the Company redeemed all outstanding Convertible Note in aggregate principal amount of US\$3,000,000 (equivalent to HK\$23,270,000) together with unpaid accrued interest of US\$150,000 (equivalent to HK\$1,163,000) plus redemption return of US\$429,500 (equivalent to HK\$3,330,000) on 26 March 2015.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

27. Convertible Note (Continued)

The Convertible Note was measured at fair value with changes in fair value recognised in profit or loss. The movement of the Convertible Note is set out below:

	Group and Company	
	Original	Shown as
	currency	
	US\$'000	HK'000
At 1 January 2013	–	–
Issue of convertible note	12,000	93,600
Interest payment	(522)	(4,071)
Change in fair value recognised in profit or loss	4,595	35,637
Conversion	(8,618)	(66,848)
Exchange gain	–	(516)
At 31 December 2013 and 1 January 2014	7,455	57,802
Redemption of convertible note	(3,000)	(23,400)
Gain on redemption of convertible note	(265)	(2,053)
Interest payment	(729)	(5,683)
Change in fair value recognised in profit or loss	(14)	(108)
Exchange loss	–	170
At 31 December 2014	3,447	26,728

The fair value of the Convertible Note at the end of the reporting period is determined by using the Monte Carlo Simulation model. The inputs into the model are as follows:

	2014	2013
Stock price	HK\$0.55	HK\$0.61
Conversion price	HK\$0.50	HK\$0.50
Expected volatility (note a)	49.507%	37.884%
Expected life (note b)	0.23 years	1.23 years
Risk-free rate (note c)	0.0406%	0.1683%
Expected dividend yield (note d)	1.689%	2.119%

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

27. Convertible Note (Continued)

Notes:

- (a) Expected volatility was determined by calculating the historical volatility of the Company's share price.
- (b) Expected life was the expected remaining life of the option.
- (c) The risk-free rate is determined by reference to the yield of the USD Treasury Actives (IYC 25) Zero Coupon Yield.
- (d) The expected dividend yield was based on the historical dividend payment record of the Company.

Any changes in the major inputs into the model will result in changes in the fair value of the Convertible Note.

28. Security Deposits Received

Security deposits received refer to deposits received from customers as collateral for credit guarantees issued by the Group. These deposits, which are denominated in RMB, are interest-free, and will be returned to customers after the relevant guarantee contracts expire.

29. Other Payables, Deposits Received and Accruals

	Group		Company	
	2014	2013	2014	2013
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Accrued salaries, wages and other benefits	1,255	1,171	-	70
Accrued expenses	2,083	1,152	360	134
Dividend payable	638	329	638	329
Others	2,885	5,991	288	26
Financial liabilities measured at amortised cost	6,861	8,643	1,286	559
Rental and other deposit received	6	6	-	-
Deposits received	186	1,369	-	-
VAT and other tax payables	8,335	8,281	-	-
	15,388	18,299	1,286	559

All of the other payables, deposits received and accruals are expected to be settled or recognised as income within one year or are repayable on demand.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

30. Liabilities Arising from Loan Guarantee Contracts

	Group	
	2014	2013
	HK\$'000	HK\$'000
Deferred income (note 30(a))	–	2,509
Provision for guarantee losses (note 30(b))	639	3,816
Current liabilities	639	6,325

(a) Deferred income

Deferred income from the loan guarantee business is amortised and recognised as revenue on a straight-line basis over the guarantee period.

(b) Provision for guarantee losses

	2014		2013	
	Undue liability provision (note i) HK\$'000	Guarantee compensation provision (note ii) HK\$'000	Total HK\$'000	Total HK\$'000
At 1 January	2,181	1,635	3,816	1,111
(Credited)/charge to profit or loss for the year	(1,810)	(1,340)	(3,150)	2,628
Exchange adjustment	(16)	(11)	(27)	77
At 31 December	355	284	639	3,816

Notes:

- i) Pursuant to Article 31 of Tentative Measures for the Administration of Financing Guarantee Companies, a financial guarantee company shall provide 50% of its guarantee income in the year it derived, as undue liability provision (“未到期責任準備金”).
- ii) Pursuant to Article 31 of Tentative Measures for the Administration of Financing Guarantee Companies, a financial guarantee company shall provide no less than 1% of the year-end balance of the guarantee liability in the year it arose as guarantee compensation provision (“擔保賠償準備金”).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

31. Income Received in Advance

	Group	
	2014	2013
	HK\$'000	HK\$'000
Financing consultancy services income	7,461	5,371

Income received in advance represents income received under the financing consultancy services and is recognised as revenue when the consultancy services are rendered.

32. Financial Derivatives

As at 31 December 2014 and 2013, the Group has outstanding equity decumulator contracts with maturity dates from 17 December 2015 to 1 June 2016 and on 23 February 2015, respectively. Based on the contracts, the Group has an obligation to sell a specified number of the equity securities ("Equity Security") of a Hong Kong Listed Company every day up to the maturity date at the strike price if the stock price is lower than the predetermined forward price, and sell twice the specified number of the Equity Security every day up to the maturity date if such stock price is higher than the predetermined forward price. The counterparty financial institution can terminate the contract when the market price of the underlying equity securities is lower than a knock-out price set out in the relevant contract. The Group has sufficient number of Equity Securities to fulfil these decumulator contracts.

The Group relies on the valuation provided by an independent professional valuer to determine the fair value of the derivative financial instruments which is based on Monte Carlo Simulation model. The key inputs applied to the valuation are time to maturity, knock-out probability, volatility, spot price of the underlying asset, interest rate level and the accumulating forward price of the transaction. The fair value of the derivative financial instrument for these decumulator contracts as at 31 December 2014 is approximately HK\$266,000 (2013: HK\$1,000,000), which was recognised in the consolidated statement of financial position.

As at 31 December 2014, this decumulator contract was secured by legal charges over certain of available-for-sale investments of HK\$18,248,000 (2013: HK\$7,200,300) (as included in "available-for-sale investments" (note 16)) and cash of HK\$495,000 (2013: HK\$735,645) (as included in "cash and cash equivalent" (note 24)) held by the Group in an account maintained with the relevant financial institution.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

33. Deferred Taxation

- a) The components of deferred tax liabilities recognised in the consolidated statement of financial position and the movements during the year are as follow:

	Group Withholding tax
	HK\$'000
<hr/>	
Deferred tax arising from:	
At 1 January 2013	10,964
Credited to profit or loss (note 6(a))	(5,788)
Exchange adjustment	180
<hr/>	
At 31 December 2013 and 1 January 2014	5,356
Charged profit or loss (note 6(a))	1,078
Exchange adjustment	(13)
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At 31 December 2014	6,421
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b) **Withholding tax**

Pursuant to the New EIT Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between the PRC and the jurisdiction of the foreign investors. For the Group, the applicable rate is 10%. The Group is therefore liable to withholding taxes on dividends distributed by its subsidiary established in Mainland China in respect of earnings generated from 1 January 2008. Deferred tax liabilities is only provided to the extent that such earnings are estimated to be distributed in the foreseeable future.

c) **Deferred tax assets not recognised**

Deferred tax assets in respect of the unused tax losses carried forward are to be recognised to the extent that it is probable that future taxable profits against which the unused tax losses can be utilised will be available in the relevant tax jurisdiction and entity.

The Group has not recognised deferred tax assets in respect of the cumulative tax losses of HK\$113,350,000 (2013: HK\$113,966,000) due to the unpredictability of future profit streams. The tax losses do not expire under current tax legislation.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

33. Deferred Taxation (Continued)

d) Deferred tax liabilities not recognised

At 31 December 2014, temporary differences relating to the undistributed profits of subsidiaries amounted to HK\$461,792,000 (2013: HK\$410,680,000). Deferred tax liabilities of HK\$46,179,000 (2013: HK\$41,068,000) have not been recognised in respect of the tax that would be payable on the distribution of these retained profits as the Company controls the dividend policy of these subsidiaries and it has been determined that it is probable that these profits will not be distributed in the foreseeable future.

e) Company's deferred taxation

At 31 December 2014, the Company does not have any material deferred taxation assets and liabilities (2013: HK\$Nil).

34. Share Capital

	2014		2013	
	No. of shares	HK\$'000	No. of shares	HK\$'000
Authorised: (note a)				
Ordinary shares of HK\$0.10 each (note b)	-	-	4,000,000,000	400,000
Ordinary shares, issued and fully paid:				
At beginning of the year	3,129,086,336	312,908	2,997,002,336	299,700
Conversion of the Convertible Note (note d)	-	-	93,084,000	9,308
Shares issued under share option scheme (note e and f)	1,000,000	575	39,000,000	3,900
Transition to no-par value regime on 3 March 2014 (note c)	-	943,981	-	-
Shares issued under Top-up placement (net of expenses) (note g)	300,000,000	162,914	-	-
At end of the year	3,430,086,336	1,420,378	3,129,086,336	312,908



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

34. Share Capital *(Continued)*

Notes:

- a) Under the new Hong Kong Companies Ordinance (Cap. 622), which commenced operation on 3 March 2014, the concept of authorised share capital no longer exists.
- b) In accordance with section 135 of the new Hong Kong Companies Ordinance (Cap. 622), the Company's shares no longer have a par or nominal value with effect from 3 March 2014. There is no impact on the number of shares in issue or the relative entitlement of any of the members as a result of this transition.
- c) In accordance with the transitional provisions set out in section 37 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622) on 3 March 2014, any amount standing to the credit of the share premium account and the capital redemption reserve has become part of the Company's share capital.
- d) On 26 April 2013 and 20 November 2013, the Convertible Note in the aggregate principal amount of US\$6,000,000 (equivalent to HK\$46,542,000) was converted into ordinary shares of the Company, resulting in the issue of a total of 93,084,000 new ordinary shares of the Company at a conversion price of HK\$0.5 per share.
- e) During the year ended 31 December 2013, options were exercised to subscribe for 39,000,000 ordinary shares in the Company at a total consideration of HK\$15,921,000 of which HK\$3,900,000 was credited to share capital and the balance of HK\$12,021,000 was credited to the share premium account. HK\$8,728,000 has been transferred from the share-based compensation reserve to the share premium account in accordance with in note 2(q)(iii).
- f) During the year ended 31 December 2014, options were exercised to subscribe for 1,000,000 ordinary shares in the Company at a total consideration of HK\$359,000, which was credited to share capital. HK\$216,000 has been transferred from the share-based compensation reserve to share capital in accordance with in note 2(q)(iii).
- g) On 23 April 2014, the Company completed a Top-up placement and issued a total of 300,000,000 ordinary shares. The proceeds from the Top-up placement was HK\$165,000,000 and the expenses in relation to the placement was HK\$2,086,000, resulting in a net increase in share capital of HK\$162,914,000.

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For the year ended 31 December 2014

35. Reserves

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

Company

	Share premium HK\$'000	Share-based compensation reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1 January 2013	865,682	22,117	199,540	1,087,339
Loss for the year	–	–	(42,242)	(42,242)
Shares issued under share option scheme	20,749	(8,728)	–	12,021
Conversion of the Convertible Note	57,540	–	–	57,540
Transfer to retained earnings upon lapse of share options	–	(470)	470	–
Dividend paid	–	–	(30,815)	(30,815)
At 31 December 2013 and 1 January 2014	943,971	12,919	126,953	1,083,843
Loss for the year	–	–	(15,782)	(15,782)
Shares issued under share option scheme	–	(216)	–	(216)
Equity-settled share-based transactions	–	20,316	–	20,316
Transfer to no-par value regime on 3 March 2014	(943,971)	–	–	(943,971)
Dividend paid	–	–	(34,291)	(34,291)
At 31 December 2014	–	33,019	76,880	109,899

At 31 December 2014 the Company has reserves available for distribution to shareholders as calculated in accordance with the provisions of Part 6 of the new Hong Kong Companies Ordinance (Cap. 622), amounting to HK\$76,880,000 (2013: HK\$126,953,000).

Nature and purpose of reserves

i) Share premium

Prior to 3 March 2014, the application of the share premium account was governed by sections 48B of the predecessor Hong Kong Companies Ordinance (Cap. 32). In accordance with the transitional provisions set out in section 37 of Schedule 11 to the new Hong Kong Companies Ordinance (Cap. 622), on 3 March 2014 any amount standing to the credit of the share premium account has become part of the Company's share capital (see note 34). The use of share capital as from 3 March 2014 is governed by the new Hong Kong Companies Ordinance (Cap. 622).



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

35. Reserves (Continued)

Nature and purpose of reserves (Continued)

ii) Share-based compensation reserve

The share-based compensation reserve represents the portion of the grant date fair value of unexercised share options granted to employees of the Group that has been recognised in accordance with the accounting policy adopted for share-based payments in note 2(q)(iii) and (iv).

iii) Exchange fluctuation reserve

The exchange fluctuation reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside Hong Kong. The reserve is dealt with in accordance with the accounting policy set out in note 2(v).

iv) Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of available-for-sale securities held at the end of the reporting period and is dealt with in accordance with the accounting policies in note 2(j).

v) Statutory surplus reserve

According to the Company's PRC subsidiaries' articles of association, each PRC company is required to transfer 10% of its net profit after tax, as determined in accordance with the PRC accounting rules and regulations, to the statutory surplus reserve. When the balance of the statutory surplus reserve reaches 50% of the PRC company's registered capital, any further appropriation is optional. The transfer to this reserve must be made before distribution of a dividend to the shareholders.

Statutory surplus reserve can be used to make up previous years' losses, if any, and may be converted into capital in proportion to their existing shareholdings, provided that the balance after such conversion is not less than 25% of the registered capital.

36. Share Options

Equity-settled share option schemes

The Company has a share option scheme (the "2004 Share Option Scheme") which was adopted on 7 June 2004 whereby the directors of the Company are authorised, at their discretion, to invite employees or any person who has contributions to the Group including directors of any company in the Group to take up options to subscribe for shares of the Company in accordance with the terms of the Share Option Scheme. The options are exercisable within a period of ten years. Each option gives the holder the right to subscribe for one ordinary share in the Company and is settled gross in shares.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

36. Share Options *(Continued)*

Equity-settled share option schemes (Continued)

The maximum number of shares in respect of which share options may be granted under the Share Option Scheme and any other schemes of the Group shall not in aggregate exceed 10% of the issued shares of the Company as at the date of approval of the Share Option Scheme (the “Scheme Mandate Limit”). The Company may seek approval from the shareholders in a general meeting to refresh the Scheme Mandate Limit. However, the total number of shares which may be issued upon exercise of all share options to be granted under the Share Option Scheme and any other schemes of the Company under the limit as refreshed must not exceed 10% of the Company’s shares in issue as at the date of approval of the limit.

The total number of shares issued and to be issued upon the exercise of share options granted and to be granted to each eligible participant (including both exercised and outstanding options) under the Share Option Scheme shall not in any 12-month period up to the date of grant exceed 1% of the total issued shares of the Company.

The exercise price is determined by the directors of the Company, and shall not be less than the highest of (i) the closing price of the Company’s shares on the date of grant, (ii) the average closing price of the shares for the five business days immediately preceding the date of grant, and (iii) the nominal value of the Company’s shares.

The 2004 Share Option Scheme expired and was terminated on 6 June 2014. As such, the Company adopted a new share option scheme (the “2014 Share Option Scheme”) on 20 May 2014. There are not material differences in the terms and conditions between the 2004 Share Option Scheme and the 2014 Share Option Scheme. However, the options granted prior to the termination of 2004 Share Option Scheme shall continue to be valid and exercisable in accordance with 2004 Share Option Scheme.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

36. Share Options *(Continued)*

Equity-settled share option schemes (Continued)

(a) The terms and conditions of the grants are as follows:

Category of grantee	Number of instruments '000	Exercise price per share HK\$	Date of grant	Exercisable period	Contractual life of option
Directors	30,000	0.479	4 October 2007	4 October 2007 to 3 October 2017	10 years
	10,000	0.359	22 October 2010	22 October 2010 to 21 October 2020	10 years
	6,660 (Option A)	0.660	11 April 2014	11 April 2015 to 10 April 2024	10 years
	6,660 (Option B)	0.660	11 April 2014	11 April 2016 to 10 April 2024	10 years
	6,680 (Option C)	0.660	11 April 2014	11 April 2017 to 10 April 2024	10 years
Employees	38,500	0.479	4 October 2007	4 October 2007 to 3 October 2017	10 years
	26,000	0.359	22 October 2010	22 October 2010 to 21 October 2020	10 years
Consultants	10,000	0.660	11 April 2014	11 April 2015 to 10 April 2018	4 years
	10,000	0.660	11 April 2014	11 April 2016 to 10 April 2018	4 years
	30,000	0.660	11 April 2014	11 April 2014 to 10 April 2016	2 years
	30,000	0.660	11 April 2014	11 April 2015 to 10 April 2016	2 years
	9,990	0.660	11 April 2014	11 April 2015 to 10 April 2024	10 years
	9,990	0.660	11 April 2014	11 April 2016 to 10 April 2024	10 years
	10,020	0.660	11 April 2014	11 April 2017 to 10 April 2024	10 years
Total share options granted	234,500				

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

36. Share Options (Continued)

Equity-settled share option schemes (Continued)

(b) The number and weighted average exercise prices of share options are as follows:

Option type	Outstanding at 1/1/13 '000	Granted during the year '000	Exercised during the year '000	Forfeited during the year '000	Expired during the year '000	Outstanding at 31/12/13 '000
2007	63,000	-	(16,000)	(2,000)	-	45,000
2010	34,000	-	(23,000)	-	-	11,000
	97,000	-	(39,000)	(2,000)	-	56,000
Exercisable at the end of the year						56,000
Weighted average exercise price	HK\$0.437	-	HK\$0.408	HK\$0.479	-	HK\$0.455
Option type	Outstanding at 1/1/14 '000	Granted during the year '000	Exercised during the year '000	Forfeited during the year '000	Expired during the year '000	Outstanding at 31/12/14 '000
2007	45,000	-	-	-	-	45,000
2010	11,000	-	(1,000)	-	-	10,000
2014	-	130,000	-	-	-	130,000
	56,000	130,000	(1,000)	-	-	185,000
Exercisable at the end of the year						85,000
Weighted average exercise price	HK\$0.455	HK\$0.660	HK\$0.359	-	-	HK\$0.600

130,000,000 share options under the 2004 Share Option Scheme were granted during the year ended 31 December 2014. No share options under the 2014 Share Option Scheme were granted during the year ended 31 December 2014. 1,000,000 and 39,000,000 share options under the 2004 Share Option Scheme were exercised during the year ended 31 December 2014 and 2013, respectively.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

36. Share Options (Continued)

Equity-settled share option schemes (Continued)

- (b) The number and weighted average exercise prices of share options are as follows: (Continued)

The weighted average share price at the date of exercise for share options exercised during the year ended 31 December 2014 was HK\$0.65 (2013: HK\$0.69).

The options outstanding at 31 December 2014 had an exercise price of HK\$0.479 or HK\$0.359 or HK\$0.660 (2013: HK\$0.479 or HK\$0.359) and a weighted average remaining contractual life of 4.84 years (2013: 4.59 years).

- (c) Fair value of share options granted to a director of the Company during the year and assumptions
- 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 the Trinomial Option Pricing model. The contractual life of the share option is used as an input into this model.

Fair value of share options and assumptions	Share options granted to a director of the Company during the year ended 31 December 2014		
	Option A	Option B	Option C
Fair value at measurement date	HK\$0.4624	HK\$0.4623	HK\$0.4620
Share price	HK\$0.6600	HK\$0.6600	HK\$0.6600
Exercise price	HK\$0.6600	HK\$0.6600	HK\$0.6600
Expected volatility	74.583%	74.583%	74.583%
Option life	10 years	10 years	10 years
Expected dividends	1.56%	1.56%	1.56%
Risk-free interest rate (based on Hong Kong Government issued securities)	2.230%	2.230%	2.230%

The expected volatility is based on the historical daily volatility (calculated based on the remaining life of the share options), based on publicly available information. Expected dividends are based on historical dividends. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. This condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

37. Operating Lease Arrangements

As lessee

At the end of the reporting period, the Group and the Company had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	Group		Company	
	2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000
Within one year	6,971	4,413	1,073	2,245
In the second to fifth year, inclusive	1,237	3,352	–	1,073
After the fifth year	–	–	–	–
	8,208	7,765	1,073	3,318

The Group is the lessee in respect of its office premises and director's quarter held under operating leases. The leases typically run for an initial of one to nine years, with an option to renew the lease when all items are renegotiated. None of the leases includes contingent rentals.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

38. Contingent Liabilities

The Group provides loan guarantee service to small-to medium-sized enterprises in Mainland China. As at 31 December 2014, the Group had contingent liabilities in relation to the loan guarantee business of approximately HK\$28,395,000 (2013: HK\$189,942,000) in which approximately HK\$355,000 (2013: HK\$2,181,000) and HK\$284,000 (2013: HK\$1,635,000) were recognised as undue liability provision and guarantee compensation provision respectively in the consolidated statement of financial position. The Group may become involved in certain legal proceedings relating to claims arising out of its operations in the normal course of business. However, none of these proceedings, individually or in aggregate, is expected to have material adverse effect on the Group's financial situation or operational results.

Other than the above and as disclosed elsewhere in these financial statements, the Group and the Company did not have any other significant contingent liabilities.

39. Material Related Party Transactions

In addition to the transactions and balances disclosed elsewhere in these financial statements, the Group had the following transactions with its related parties during the year:

Remuneration of key management personnel of the Group

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 7, is as follows:

	2014 HK\$'000	2013 HK\$'000
Short-term benefits	5,951	6,099
Post-employment benefit	101	125
Equity compensation benefits	4,236	–
	10,288	6,224

Total remuneration is included in "staff costs" (see note 5(b)).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

40. Critical Accounting Estimates and Judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under circumstances.

The selection of critical accounting policies, the judgements and other uncertainties affecting the application of these policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the financial statements. The significant accounting policies are set out in note 2. The Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the consolidated financial statements.

a) *Impairment of property, plant and equipment*

If circumstances indicate that the carrying value of an item of the property, plant and equipment may not be recoverable, the asset may be considered “impaired”, and an impairment loss may be recognised in profit or loss in accordance with the accounting policy for impairment of property, plant and equipment as described in note 2(k)(ii). The carrying amounts of assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to the recoverable amount.

The recoverable amount is the greater of the fair value less costs to sell and the value in use. In determining the value in use, expected future cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to the level of revenue and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of the level of revenue and the amount of operating costs. Changes in these estimates could have a significant impact on the carrying value of the assets and could result in additional impairment charge or reversal of impairment in future periods.

b) *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 to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

40. Critical Accounting Estimates and Judgements *(Continued)*

c) Impairment of receivables, loans and advances and available-for-sale financial assets

The Group reviews portfolios of receivables, loans and advances and available-for-sale financial assets periodically to assess whether any impairment losses exist and the amount of impairment losses if there is any indication of impairment. Objective evidence for impairment includes observable data indicating that there is a measurable decrease in the estimated future cash flows for receivables, loans and advances and available-for-sale financial assets. It also includes observable data indicating adverse changes in the repayment status of the debtors, or change in national or local economic conditions that causes the default in payment.

The impairment loss for receivables and loans and advances that is individually assessed for impairment is the net decrease in the estimated discounted future cash flow of the financial assets. When the financial assets are collectively assessed for impairment, the estimate is based on historical loss experience for assets with credit risk characteristics similar to the financial assets. Historical loss experience is adjusted on the basis of the relevant observable data that reflect current economic conditions and the judgement based on management's historical experience. Management reviews the methodology and assumptions used in estimating future cash flows regularly to reduce any difference between loss estimates and actual loss.

The objective evidence of impairment for available-for-sale financial assets includes significant or continual decline in fair value of investments. When deciding whether there is significant or continual decline in fair value, the Group will consider the historical fluctuation records of market and debtors' credit condition, financial position and performance of related industry.

d) Income taxes

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates the tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation. Deferred tax assets are recognised for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profits will be available against which the unused tax credits can be utilized, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax assets to be recovered.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

40. Critical Accounting Estimates and Judgements *(Continued)*

e) Provision for loan guarantees

The Group makes reasonable estimates on the costs required to fulfil the relevant obligations under guarantee contracts when the Group computes the provisions of guarantee losses. Such estimation is made based on the available information as at the end of the reporting period and is determined by the Group's practical experience, taking into consideration of industry information and market data.

f) Fair value of convertible note

The fair value of the convertible note is based on independent valuation by a professional valuer. The valuation involves assumptions on the Company's credit spread, discount rate, expected credit rating and future cash flows. Changes in the underlying assumptions could materially impact profit or loss or equity.

g) Fair value of derivative financial instrument

The fair value of derivative financial instrument is based on the valuations performed by independent professional valuer. Judgement is required in determining such valuations. Changes in the underlying assumptions could materially impact profit or loss or equity.

41. Financial Risk Management and Fair Values of Financial Instruments

The Group's and the Company's major financial instruments include available-for-sale investments, accounts receivable, interests receivable, short-term loans receivables, other receivables, pledged bank and security deposits paid, amounts due from subsidiaries, cash and cash equivalents, short-term borrowings, bank loans, security deposits received, amount due to an associate, other payables, financial derivatives and convertible note. Details of the financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include credit risk, liquidity risk, currency risk, interest rate risk and equity price risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

a) Credit risk

Credit risk arises from a customer's inability or unwillingness to meet its financial obligations to make timely payments under loans the Group guaranteed or provided. Credit risk is primarily attributable to unexpired guarantees issued by the Group and the short-term loan business of the Group, short-term loans receivables, pledged bank and security deposits paid, cash and cash equivalents and listed investments.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

41. Financial Risk Management and Fair Values of Financial Instruments *(Continued)*

a) *Credit risk (Continued)*

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the consolidated statement of financial position after deducting any impairment allowance. Except for the guarantee as disclosed below, the Group has no credit risk arising from any other guarantee.

(i) *Credit risk arising from guarantee business*

The Group has taken measures to identify credit risks arising from guarantee business. The Group manages credit risk at every stage of the risk management system, including pre-approval, review and credit approval and post-transaction monitoring processes. The Group conducts customer acceptance and due diligence by business department and risk management department during the pre-approval process. A transaction may be subject to the review and approval of credit approval officer and the executive directors depending on the transaction size.

During the post-transaction monitoring process, all guarantees provided are backed by collateral as security, the Group focuses on ascertaining legal ownership and the valuation of the collaterals. A guarantee provided by the Group is based on the value of the collaterals and generally approximates 58.52%-69.15% of the estimated value of the collaterals. The Group monitors the value of the collaterals throughout the guarantee period.

When a certain number of customers undertake the same business activities, stay in the same geographical locations, or bear similar economic features for their industries, their ability to fulfill contracts will be affected by the same economic changes. Concentration of credit risk reflects the sensitivity of the Group's operating results to specific industries or geographical locations. As the Group mainly operates its business in the PRC, there exists a certain level of geographical concentration risk for its guarantee portfolio in that it might be affected by the changes in the PRC economic conditions.

The maximum exposure to credit risk in respect of these financial guarantees at the end of the reporting period is disclosed in note 38.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

41. Financial Risk Management and Fair Values of Financial Instruments *(Continued)*

a) *Credit risk (Continued)*

(ii) *Credit risk arising short-term loan business*

The Group adopts the same pre-approval, review and credit approval risk management system for credit risk arising from short-term loan business. During the post-transaction monitoring process, the Group performs credit evaluations on each and every major customer periodically. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates.

All short-term loans granted are backed by collateral as security. The Group also focuses on ascertaining legal ownership and the valuation of the collaterals. A loan granted is based on the value of the collaterals and generally approximates 3.00%-86.83% of the estimated value of the collaterals. The Group closely monitors the ownership and the value of the collaterals throughout the loan period. The short-term loans receivables are due by the date as specified in the corresponding loan agreements.

In accordance with accounting policies, if there is objective evidence that indicates the cash flows for a particular loan is expected to decrease, and the amount can be estimated, the loan is recorded as an impaired loan and the impairment loss is recognised in profit or loss.

The Group's policy requires regular review of the quality of individually significant financial assets. For assets for which an allowance for impairment loss is provided individually, the amount is determined by an evaluation of the incurred loss at the reporting date on a case-by-case basis. In making such assessments, the Group considers the value of collateral held and expected future cash flows from the asset.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, Nil (2013: 7.72%) and 10.14% (2013: 16.31%) of the total short-term loans receivables was due from the Group's largest customer and the five largest customers respectively.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

41. Financial Risk Management and Fair Values of Financial Instruments *(Continued)*

a) *Credit risk (Continued)*

(ii) *Credit risk arising short-term loan business (Continued)*

When a certain number of customers undertake the same business activities, stay in the same geographical locations, or bear similar economic features for their industries, their ability to fulfill contracts will be effected by the same economic changes. Concentration of credit risk reflects the sensitivity of the Group's operating results to specific industries or geographical locations. As the Group mainly operates its businesses in the PRC and Hong Kong, there exists a certain level of geographical concentration risk for its loan portfolio in that it might be affected by the changes in the PRC and Hong Kong economic conditions.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from short-term loans receivables are set out in note 18.

(iii) *Other Credit risks*

In respect of accounts receivable and interests receivable, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customers as well as pertaining to the economic environment in which the customer operates. Further quantitative disclosures in respect of the Group's exposure to credit risk arising from accounts receivable and interests receivable are set out in notes 17 and 19 respectively.

The majority of the Group's investments are liquid securities listed on the recognised stock exchanges. No exposure to credit risk is expected.

The credit risk on cash and cash equivalents and pledged bank and security deposits paid is limited because the counterparties are banks and other financial institutions with high credit ratings assigned by international credit-rating agencies.

b) *Liquidity risk*

The Group is responsible for its own cash management, including the short-term investment of cash surpluses and the raising of loans to cover expected cash demand, subject to board approval. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following liquidity tables show the remaining contractual maturities at the end of the reporting period of the Group's and the Company's non-derivative financial liabilities and derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of reporting period) and the earliest date the Group and the Company can be required to pay.

In addition, the following table details the Group's liquidity analysis for its Convertible Note. The tables have been drawn up based on the undiscounted gross outflows on the Convertible Note based on the contractual maturities assuming (i) no conversion of the Convertible Notes into equity and (ii) no early redemption of the Convertible Note will take place.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

41. Financial Risk Management and Fair Values of Financial Instruments (Continued)

b) Liquidity risk (Continued)

Group

	2014				Carrying amount at 31 December HK\$'000	2013			
	Contractual undiscounted cash outflow					Contractual undiscounted cash outflow			
	Within 1 year or on demand HK\$'000	More than 1 year but less than 2 years HK\$'000	More than 2 years but less than 5 years HK\$'000	Total contractual undiscounted cash flow HK\$'000		Within 1 year or on demand HK\$'000	More than 1 year but less than 2 years HK\$'000	Total contractual undiscounted cash flow HK\$'000	Carrying amount at 31 December HK\$'000
Non-derivative financial liabilities:									
Bank loans									
- fixed rates	18,877	-	-	18,877	17,747	5,318	19,044	24,362	21,622
- variable rates	51,425	-	-	51,425	50,705	20,040	-	20,040	19,078
Short-term borrowings									
- fixed rates	437,965	-	-	437,965	430,735	322,367	-	322,367	317,392
- non-interest-bearing	-	-	-	-	-	98,648	-	98,648	98,648
Security deposits received	-	-	-	-	-	109,833	-	109,833	109,833
Amount due to an associate	3,549	-	-	3,549	3,549	3,561	-	3,561	3,561
Other payables, deposits received and accruals	6,861	-	-	6,861	6,861	8,643	-	8,643	8,643
	518,677	-	-	518,677	509,597	568,410	19,044	587,454	578,777
Financial liabilities at FVTPL:									
Convertible Note	27,761	-	-	27,761	26,728	4,680	56,577	61,257	57,802
Financial guarantees issued:									
Maximum amount guaranteed arising from:									
- Loan guarantee business*	28,395	-	-	28,395	-	189,942	-	189,942	-

* The maximum amount guaranteed represents the total amount of liability less the amount of customer security deposits should be all customers default. Since a significant portion of guarantees issued is expected to expire without being called upon the maximum liabilities do not represent expected future cash outflows.

Company

	2014				Carrying amount at 31 December HK\$'000	2013			
	Contractual undiscounted cash outflow					Contractual undiscounted cash outflow			
	Within 1 year or on demand HK\$'000	More than 1 year but less than 2 years HK\$'000	More than 2 years but less than 5 years HK\$'000	Total contractual undiscounted cash flow HK\$'000		Within 1 year or on demand HK\$'000	More than 1 year but less than 2 years HK\$'000	Total contractual undiscounted cash flow HK\$'000	Carrying amount at 31 December HK\$'000
Non-derivative financial liabilities									
Other payables, deposits received and accruals	1,286	-	-	1,286	1,286	559	-	559	559
Amounts due to subsidiaries	110,389	-	-	110,389	110,389	102,210	-	102,210	102,210
	111,675	-	-	111,675	111,675	102,769	-	102,769	102,769
Financial liabilities at FVTPL									
Convertible Note	27,761	-	-	27,761	26,728	4,680	56,577	61,257	57,802

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

41. Financial Risk Management and Fair Values of Financial Instruments (Continued)

c) Interest rate risk

The Group is principally engaged in the provision of short-term financing services. Its interest rate risk arises primarily from deposits with financial institutions, short-term loans receivables, bank and other interest-bearing borrowings.

i) Interest rate profile

The following table details the interest rate profile of the Group's and the Company's assets and liabilities at the end of the reporting period:

	Group		Company	
	At 31 December 2014 HK\$'000	2013 HK\$'000	At 31 December 2014 HK\$'000	2013 HK\$'000
Fixed interest rate				
Financial assets				
– Short-term loans receivables	2,162,264	1,893,678	–	–
Financial liabilities				
– Bank loans	(17,747)	(21,622)	–	–
– Entrusted loan	(65,759)	–	–	–
– Borrowings under contractual agreements with 愛搜奇	(83,838)	–	–	–
– Borrowings from employees	(21,135)	–	–	–
– Other borrowings	(63,382)	–	–	–
– Borrowings under a strategic cooperation and investment agreements	(197,368)	(322,367)	–	–
– Convertible Note	(26,728)	(57,802)	(26,728)	(57,802)
	(475,957)	(401,791)	(26,728)	(57,802)
Net	1,686,307	1,491,887	(26,728)	(57,802)
Variable interest rate				
Financial assets				
– Cash at bank/financial institutions	152,943	103,200	2,091	8,673
– Pledged bank and security deposits paid	146,383	103,610	–	–
	299,326	206,810	2,091	8,673
Financial liabilities				
– Bank loans	(50,705)	(19,078)	–	–
Net	248,621	187,732	2,091	8,673
Fixed rate borrowings as a percentage of total borrowings	90.37%	95.47%	100.00%	100.00%

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

41. Financial Risk Management and Fair Values of Financial Instruments *(Continued)*

c) *Interest rate risk (Continued)*

ii) *Sensitivity analysis*

Short-term loans receivables, short-term borrowings, Convertible Note and certain of bank loans of the Group which are fixed rate instruments are insensitive to any change in interest rates. A change in interest rates at the end of the reporting period would not affect profit or loss.

The Group and the Company are exposed to cash flow interest rate risk in relation to bank deposits and certain of bank loans that carrying interest at variables rates. The Group does not have an interest rate hedging policy. However, the management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arises. The directors consider the Group's exposure to cash flow interest rate risk of bank deposits is not significant.

At 31 December 2014 it is estimated that a general increase/decrease of 100 basis points in interest rates for variable rate bank borrowings, with all other variables held constant, would decrease/increase the Group's profit after tax (and retained profits) by approximately HK\$380,000 (2013: HK\$150,000). Other components of consolidated equity would not change in response to the general increase/decrease in interest rates.

The sensitivity analysis above indicates the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held at the end of the reporting period. The analysis is prepared assuming these financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 100 basis points (2013: 100 basis points) increase or decrease in interest rates 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. The analysis is performed on the same basis for 2013.

d) *Currency risk*

The business transactions of the entity within the Group are mainly conducted in its functional currency, and so the Group and the Company have no significant exposure to currency risk.

e) *Equity price risk*

The Group is exposed to equity price changes arising from equity investments classified as available-for-sale investments (see note 16).

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

41. Financial Risk Management and Fair Values of Financial Instruments (Continued)

e) Equity price risk (Continued)

The Group's listed investments are listed on recognised stock exchanges. Listed investments held in the available-for-sale portfolio have been chosen based on their longer term growth potential and are monitored regularly for performance against expectations. The portfolio is diversified in terms of industry distribution, in accordance with the limits set by the Group.

The Group is also exposed to equity price risk arising from changes in the Company's own share price to the extent that the Company's own equity instruments underlie the fair values of the Convertible Note. As at the end of the reporting period, the Group is exposed to this risk through the Convertible Note issued by the Company as disclosed in note 27.

At 31 December 2014 it is estimated that an increase/(decrease) of 10% (2013: 10%) in the relevant stock market index (for listed investments) or the Company's own share price (for the Convertible Note) as applicable, with all other variables held constant, would have increased/ decreased the Group's profit after tax (and retained profits) and other components of consolidated equity as follows:

Group

	2014			2013		
	Effect on profit after tax and retained profits	Effect on other components of equity	HK\$'000	Effect on profit after tax and retained profits	Effect on other components of equity	HK\$'000
Change in the relevant equity price risk variable:						
Increase	10%	(2)	2,907	10%	(5,019)	4,200
Decrease	(10%)	7	(2,907)	(10%)	4,050	(4,200)

The sensitivity analysis indicates the instantaneous change in the Group's profit after tax (and retained profits) and other components of consolidated equity that would arise assuming that the changes in the stock market index or other relevant risk variables had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to equity price risk at the end of the reporting period. It is also assumed that the fair values of the Group's equity investments would change in accordance with the historical correlation with the relevant stock market index or the relevant risk variables, that none of the Group's available-for-sale investments would be considered impaired as a result of the decrease in the relevant stock market index or other relevant risk variables, and that all other variables remain constant. The analysis is performed on the same basis for 2013.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

41. Financial Risk Management and Fair Values of Financial Instruments (Continued)

f) Fair value measurement

i) Financial assets and liabilities measured at fair value

Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy defined as in HKFRS 13 "Fair Value Measurement". The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs, that is, unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2 valuations: Fair value measured using Level 2 inputs, that is, observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available
- Level 3 Valuations: Fair value measured using significant unobservable input

The Group engages independent professional valuers performing valuations for its financial instruments, including the Convertible Note and financial derivatives which are categorised into Level 3 of the fair value hierarchy. Valuation reports with analysis of changes in fair value measurement are prepared by independent valuers at each interim and annual reporting date, and are reviewed by the financial controller and approved by the directors of the Company. Discussion of the valuation process and results with the financial controller and the directors of the Company is held twice a year to coincide with the reporting date.

	Fair value at	Fair value measurements			Fair value at	Fair value measurements		
	31 December	as at 31 December 2014			31 December	as at 31 December 2013		
	2014	Level 1	Level 2	Level 3	2013	Level 1	Level 2	Level 3
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Group								
Recurring fair value measurements								
Assets:								
Available-for-sale equity securities								
– Listed	29,071	29,071	-	-	42,002	42,002	-	-
Liabilities:								
Convertible Note	26,728	-	-	26,728	57,802	-	-	57,802
Financial derivatives	266	-	-	266	1,000	-	-	1,000

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

41. Financial Risk Management and Fair Values of Financial Instruments (Continued)

f) Fair value measurement (Continued)

i) Financial assets and liabilities measured at fair value (Continued)

	Fair value at	Fair value measurements			Fair value at	Fair value measurements		
	31 December	as at 31 December 2014			31 December	as at 31 December 2013		
	2014	Level 1	Level 2	Level 3	2013	Level 1	Level 2	Level 3
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Company								
Recurring fair value measurements								
Liabilities:								
Convertible Note	26,728	-	-	26,728	57,802	-	-	57,802

During the years ended 31 December 2013 and 2014, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

Information about Level 3 fair value measurements

	Valuation techniques	Significant unobservable inputs
Convertible Note	Monte Carlo Simulations	Expected volatility of 49.51% (2013: 37.88%)
Financial derivatives	Monte Carlo Simulations	Expected volatility from 30.33% to 31.79% (2013: 28.82%)

The fair values of Convertible Note and financial derivatives are determined using Monte Carlo Simulations model and the significant unobservable inputs used in the fair value measurement is expected volatility.

The fair value measurement of convertible note is positively correlated to the expected volatility. As at 31 December 2014, it is estimated that with all other variables held constant, an increase/decrease in the expected volatility by 10% would have decreased/increased the Group's profit by HK\$1,000/HK\$2,000 (2013: HK\$285,000/HK\$257,000) respectively.

No sensitive analysis is performed on the financial derivatives as the impact is not significant to the Group's profit.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

41. Financial Risk Management and Fair Values of Financial Instruments (Continued)

f) Fair value measurement (Continued)

i) Financial assets and liabilities measured at fair value (Continued)

The movements during the period in the balance of these Level 3 fair value measurements are as follows:

	Group	
	2014 HK\$'000	2013 HK\$'000
Convertible Note:		
At 1 January	57,802	–
Issue of Convertible Note	–	93,600
Redemption of Convertible Note	(23,400)	–
Gain on redemption of Convertible Note	(2,053)	–
Interest payment	(5,683)	(4,071)
Changes in fair value recognised in profit or loss	(108)	35,637
Conversion	–	(66,848)
Exchange adjustment	170	(516)
At 31 December	26,728	57,802
Total losses for the period included in profit or loss for liability held at the end of the reporting period	62	35,121
Total gain on redemption of Convertible Note	(2,053)	–
Financial derivatives:		
At 1 January	1,000	–
Changes in fair value recognised in profit or loss	(734)	1,000
At 31 December	266	1,000
Total (gain)/losses for the period included in profit or loss for liability held at the end of the reporting period	(734)	1,000

The losses arising from the remeasurement of the Convertible Note and financial derivatives are presented in "Other Net Income/(Loss)" in the consolidated statement of profit or loss.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

41. Financial Risk Management and Fair Values of Financial Instruments *(Continued)*

f) Fair value measurement (Continued)

ii) Fair value of financial instruments carried at other than fair value

The carrying amounts of the Group's and the Company's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2013 and 2014.

g) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The management reviews the capital structure by considering the cost of capital and the risks associated with each class of capital. In view of this, the Group will balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt as it sees fit and appropriate.

The Group monitors capital on the basis of a gearing ratio, which was unchanged from 2013. This ratio is calculated as net debt divided by capital. Net debt is calculated as total borrowings (including current and non-current borrowings and security deposits received) less cash and cash equivalents and pledged bank and security deposits paid. Capital comprises all components of equity.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

41. Financial Risk Management and Fair Values of Financial Instruments (Continued)

g) Capital management (Continued)

The gearing ratio at 31 December 2014 and 2013 were as follows:

	Group		Company	
	2014 HK\$'000	2013 HK\$'000	2014 HK\$'000	2013 HK\$'000
Current Liabilities:				
Bank loans	68,452	22,894	-	-
Short-term borrowings	430,735	416,040	-	-
Security deposits received	-	109,833	-	-
Convertible Note	26,728	-	26,728	-
	525,915	548,767	26,728	-
Non-current liabilities:				
Convertible Note	-	57,802	-	57,802
Bank loans	-	17,806	-	-
Total borrowings	525,915	624,375	26,728	57,802
Less: Cash and cash equivalents	(153,014)	(103,288)	(2,091)	(8,673)
Pledged bank and security deposits paid	(146,383)	(103,610)	-	-
Net debt	226,518	417,477	24,637	49,129
Total equity	2,570,695	2,131,211	1,530,277	1,396,751
Gearing ratio	8.81%	19.58%	1.61%	3.52%

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

42. Ultimate Controlling Party

The directors regard Mr. Cheung Siu Lam through his direct shareholding in the Company as being the ultimate controlling party. The Company does not have any parent company.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2014

43. Possible Impact of Amendments, New Standards and Interpretations Issued But Not Yet Effective for the Year Ended 31 December 2014

Up to the date of issue of these financial statements, the HKICPA has issued a few amendments and new standards which are not yet effective for the year ended 31 December 2014 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

Annual improvements to HKFRSs 2010-2012 cycle¹

Annual improvements to HKFRSs 2011-2013 cycle¹

Annual Improvements to HKFRSs 2012-2014 Cycle²

Amendments to HKAS 19, Defined benefit plans: Employee contributions¹

Amendments to HKFRS 11, Accounting for acquisitions of interests in joint operations²

Amendments to HKAS 16 and HKAS 38, Clarification of acceptable methods of depreciation and amortisation²

HKFRS 15, Revenue from contracts with customers³

HKFRS 9, Financial instrument⁴

Amendments to HKAS 27, Equity method in separate financial statements²

Amendments to HKFRS 10, HKFRS 12 and HKAS 28, Investment entities: applying the consolidation exception²

Amendments to HKFRS 10 and HKAS 28, Sale or contribution of assets between an investor and its associate or joint venture²

¹ Effective for annual periods beginning on or after 1 July 2014.

² Effective for annual periods beginning on or after 1 January 2016.

³ Effective for annual periods beginning on or after 1 January 2017.

⁴ Effective for annual periods beginning on or after 1 January 2018.

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.

In addition, the requirements of Part 9, "Accounts and Audit", of the new Hong Kong Companies Ordinance (Cap. 622) come into operation from the Company's first financial year commencing after 3 March 2014 (i.e. the Company's financial year which began on 1 January 2015) in accordance with section 358 of that Ordinance. The Group is in the process of making an assessment of the expected impact of the changes in the Companies Ordinance on the consolidated financial statements in the period of initial application of Part 9. So far it has concluded that the impact is unlikely to be significant and will primarily only affect the presentation and disclosure of information in the consolidated financial statements.

44. Event After the Reporting Period

On 5 March 2015, a wholly-owned subsidiary of the Company issued bonds for an aggregate principal amount of RMB300 million with interest at 6.50% per annum which will mature on March 2018. The bonds were guaranteed by the Company and an independent third party. The Group intends to use the proceeds of the issuance of the bonds in the Group's business in Hong Kong and for other general corporate purposes.

FINANCIAL SUMMARY

For the year ended 31 December 2014

SUMMARY 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 published audited financial statements and reclassified or restated as appropriate, is set out below.

	Year ended 31 December				
	2014 HK\$'000	2013 HK\$'000	2012 HK\$'000	2011 HK\$'000	2010 HK\$'000
Results					
Turnover	560,496	440,724	300,601	382,127	217,022
Profit for the year	296,483	240,135	255,649	59,375	32,146
Attributable to:					
Equity shareholders of the Company	293,634	237,478	254,039	57,302	25,355
Non-controlling interest	2,849	2,657	1,610	2,073	6,791
	296,483	240,135	255,649	59,375	32,146

	As at 31 December				
	2014 HK\$'000	2013 HK\$'000	2012 HK\$'000	2011 HK\$'000	2010 HK\$'000
Assets and liabilities					
Total assets	3,200,142	2,860,529	2,388,564	1,866,949	885,740
Total liabilities	(629,447)	(729,318)	(578,673)	(299,671)	(111,598)
Non-controlling interest	(25,060)	(40,746)	(29,368)	(30,930)	(8,313)
Balance of total equity attributable to					
equity shareholders of the Company	2,545,635	2,090,465	1,780,523	1,536,348	765,829