



美丽中国  
BEAUTIFUL CHINA



Annual Report  
**2013**

**BEAUTIFUL CHINA HOLDINGS COMPANY LIMITED**

(Incorporated in Bermuda with limited liability)

Stock Code : 706

# Contents

Corporate Information	2
Business Structure	3
Chairman's Statement	4
Management Discussion and Analysis	5
Biographical Details of Directors and Senior Management	7
Report of the Directors	10
Corporate Governance Report	21
Independent Auditor's Report	36
Consolidated Statement of Profit or Loss	38
Consolidated Statement of Profit or Loss and Other Comprehensive Income	39
Consolidated Statement of Financial Position	40
Consolidated Statement of Changes in Equity	42
Consolidated Statement of Cash Flows	43
Notes to the Consolidated Financial Statements	45
Five Years Financial Summary	86



# CORPORATE INFORMATION

## DIRECTORS

### Executive Directors

Mr. Sze Wai, Marco (*Chairman and Chief Executive Officer*)  
Mr. Mao Zhenhua  
Mr. Shentu Jun  
Mr. Tan Shu Jiang  
Mr. Song Jing Sheng

### Non-executive Director

Mr. Law Fei Shing

### Independent Non-executive Directors

Mr. Chan Ming Sun, Jonathan  
Mr. Lai Yip Wing  
Mr. Chong Yiu Kan, Sherman  
Mr. Lum Pak Sum  
Mr. Wong Po Yan

## COMPANY SECRETARY

Mr. Chan Ying Kay, *FCPA*

## QUALIFIED ACCOUNTANT

Mr. Chan Ying Kay, *FCPA*

## LEGAL ADVISERS

Chiu & Partners  
40th Floor, Jardine House  
1 Connaught Place  
Hong Kong

## AUDITOR

RSM Nelson Wheeler  
*Certified Public Accountants*  
29th Floor, Caroline Centre,  
Lee Gardens Two,  
28 Yun Ping Road,  
Hong Kong

## INVESTOR AND MEDIA RELATIONS

Strategic Financial Relations Limited  
[www.sprg.com.hk](http://www.sprg.com.hk)

## PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited  
Citic Ka Wah Bank Limited

## REGISTERED OFFICE

Clarendon House  
2 Church Street  
Hamilton HM 11  
Bermuda

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Units 2003 and 2005, 20th Floor  
Great Eagle Centre  
23 Harbour Road, Wanchai  
Hong Kong

## BERMUDA PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Codan Services Limited  
Clarendon House, 2 Church Street  
PO Box HM 1022  
Hamilton HM DX, Bermuda

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

## COMPANY WEBSITE

[www.beautifulchina.com.hk](http://www.beautifulchina.com.hk)

# BUSINESS STRUCTURE



The following chart shows the principal subsidiaries of Beautiful China Holdings Company Limited which are engaged in automatic teller machine (“ATM”) business as at 31 December 2013:





# CHAIRMAN'S STATEMENT

## To Our Shareholders

During the year, reflecting our effort to enter the eco-environment construction sector in the PRC we have changed our English name from “FinTronics Holdings Company Limited” to “Beautiful China Holdings Company Limited.” At the same time we have also adopted the Chinese name “美麗中國控股有限公司” to replace “銀創控股有限公司”. The name changes align Beautiful China Holdings Company Limited’s (“Beautiful China Holdings” or the “Group”) corporate image with its new corporate strategic direction.

The Central Government has emphasized the green concept of “Building a Beautiful Country” at the 18th National Congress and the 12th National People’s Congress underscoring the importance of environmental protection, respect for nature, harmony with nature, and integration of the concept of ecological civilisation into social construction, creating an unprecedented opportunity for the ecological environment construction industry. As early as February 2013 the Group entered into a memorandum of understanding with a garden and landscape building business company in the mainland as a complement to the full development of the domestic ecological environment construction industry. Since then we have attached great importance to the development of this business, and will actively promote the project process.

Meanwhile, the Group is continuing to prudently develop its core ATM operations. During the year under review, the operating environment of the ATM market remained challenging due to factors including the impact of the slow growth of the economy in the PRC and globally as well as intensified marketing competition reinforced by the trend that more and more ATM facilities are self-deployed by banks. Therefore, a majority of the ATM operators have delayed their network expansion. After carefully evaluating the business environment, the Group has adopted a carefully conceived strategy of optimally selecting ATM locations, implemented effective cost control measures and managed to lower the rental and operating costs for its ATM network, thus reducing its business losses.

Looking to the future, the government’s strong supportive policies to high-tech manufacturing enterprises and services outsourcing industries are expected to bring opportunities for the development of the ATM industry. Leveraging our competitive advantage of our solid business foundation and successful business strategies, we will strive to collaborate with our local partners for the development of business with the commercial banks in order to achieve win-win results and position us better to capture the emerging opportunities.

The management believes that the expansion into the garden and eco-environment construction business will help broaden our revenue base and deliver more promising returns to our shareholders. Resting on our strong financial position and guided by our long-term business plan, we are committed to achieving a better future.

## APPRECIATION

On behalf of the Board of Directors, I would like to take this opportunity to express my sincere appreciation to all of our clients, bankers, investors and business partners for their continuous support and trust over the years. I would also like to thank the management team and staff for their dedicated commitment and contributions to the Group’s business over the past year.

**Sze Wai, Marco**

*Chairman and Chief Executive Officer*

Hong Kong, 26 March 2014



## BUSINESS REVIEW

The operating environment of the Group's ATM business became more challenging due to intensified industry competition. During the year, as the operating environment had yet to see any sign of improvement, most ATM operators had slowed down their pace of deployment and some had even experienced shrinking market share. In regards to the Group's performance, its revenue was diluted as devices with high transaction volume were surrounded by banks or affected by new ATM devices installed by other operators. At the same time, certain operators had terminated their operating cooperation in advance or scaled down operating cooperation, posing pressure on the Group's turnover on certain extent.

During the year, the Group has reinforced its competitive edge by focusing on the maintenance of devices with high transaction volume, while maintained and enhanced their operation so as to ensure the project income. Meanwhile, the Group is actively negotiating with banks, with the permission of adding up money by banks, and to shift its ATM network from high rent locations with low transaction volume to those with lower rents and higher transaction volume. In addition, the Group is also seeking for external cooperation by selecting some local commercial banks to operate together, thereby achieving resources complementation and mutually benefits.

As at 31 December 2013, ATM deployed by the Group were mainly distributed in cities, including Shenyang, Shenzhen, Qingdao, Yantai and Changsha.

The Group entered into a memorandum of understanding with Wuxi Municipal Virescence Construction Company Limited through its wholly-owned subsidiary on 4 February 2013 to diversify its business into the gardening and landscape construction sector. The Group intends to greatly develop eco-environment construction industry and pursue high growth in eco-environment construction industry in the future by confirming to the central government's concept of "Building a Beautiful Country".

## PROSPECTS

Affected by the challenging business and operating environment in ATM market in the PRC, the Group's ATM business recorded an unsatisfactory performance. Looking forward, we will focus resources on exploring the potential in eco-environment construction industry and seize lucrative opportunities in the industry.

With the ongoing economic development of the country, coupled with the increasing pace of urbanization, and emphasis on environmental protection, the ecological environment construction industry in the PRC will face an unprecedentedly huge demand. From 2005 to 2009, the annual compound growth rate of the nationwide investment in eco-environment construction was about 22.1%. By the end of 2012, the Central Government also issued guideline documents on facilitating the healthy development of urban landscaping, requiring the prefecture-level cities and counties to, among other things, complete the compilation or amendment of the planning of green space systems by the end of 2015 and incorporate such systems into the general urban planning, expand the green space, balance the distribution of green space, and accelerate the construction of parks and greens. Thanks to the notion of "build a beautiful country" put forward at the 18th National Congress, it is believed that the annual compound growth rate of the investment in eco-environment construction will remain high in the future.



# MANAGEMENT DISCUSSION AND ANALYSIS

Resting on Beautiful China Holdings' strong financial position and long-term business plans, the management will endeavor to expand the existing ATM business and actively develop the potentially lucrative garden and landscape building business, with the ultimate goal of laying a concrete foundation for long-term growth.

## LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2013, the Group had cash and bank balances of HK\$103.2 million (2012: HK\$131.1 million). The Group had no bank and other borrowings but finance lease liabilities of HK\$2.4 million as at 31 December 2013 (2012: HK\$3.2 million). As at 31 December 2013, the total assets value of the Group was HK\$152.3 million (2012: HK\$185.6 million) whereas the total liabilities was HK\$19.9 million (2012: HK\$14.0 million). The gearing ratio of the Group, calculated as total liabilities over total assets, was 13.1% (2012: 7.5%).

The Group maintained a net cash (being the total cash and bank balances net of finance lease liabilities) to equity ratio of 76.1% (2012: net cash to equity ratio of 74.5%) as at 31 December 2013. With net cash of HK\$100.8 million (2012: net cash of HK\$127.9 million) as at 31 December 2013, the Directors of the Group believe that the Company has sufficient financial resources to satisfy its commitments and working capital requirements.

## EXCHANGE RISK

As the Group's operations are principally in the PRC and all assets and liabilities are denominated either in RMB, Hong Kong dollars or United States dollars, the Directors believe that the operations of the Group are not subject to significant exchange risk.

## EMPLOYEES, TRAINING AND REMUNERATION POLICIES

As at 31 December 2013, the Group had approximately 47 (2012: 45) employees of which approximately 9 (2012: 9) were technicians and engineers. Employees' costs (including directors' emoluments) amounted to approximately HK\$17.5 million (2012: HK\$16.1 million) for the year. The Group ensures that the pay levels of its employees are competitive and employees are rewarded on a performance related basis.

The Directors believe that experienced staff, in particular its technicians, are the most valuable assets of the Group. Training programme is provided to technicians, especially new recruits, to ensure their technical proficiency.

The Company operates a share option scheme (the "Scheme") whereby the Board may at their absolute discretion, grant options to employees and Directors of the Company and any of its subsidiaries to subscribe for shares in the Company. The subscription price, exercisable period and the maximum number of options to be granted are determined in accordance with the prescribed terms of the Scheme. During the year, no share options were granted to directors, executives and employees to their contribution to the Group.

# BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT



## EXECUTIVE DIRECTORS

**Mr. Sze Wai, Marco**, aged 48, is the Chairman and the Chief Executive Officer of the Company. He joined the Group in February 2001. Mr. Sze has over 22 years of experience in investing in Hong Kong and China. His investment interests cover various sectors including information technology, industrial, property investment and development, transportation and trading. He is responsible for formulating the Group's business strategies.

**Mr. Mao Zhenhua**, aged 50, graduated from Wuhan University with a Doctorate Degree in Economics. Mr. Mao is currently the Board Chairman and Chief Economist of China Chengxin Credit Management Co., Ltd.. He has extensive experience in investment banking and the management of listed companies in Hong Kong. Mr. Mao had carried out economic analysis and policies research for Hubei Provincial Government, Hainan Provincial Government and Research Office of the State Council. Mr. Mao was redesignated from an Independent Non-executive Director to an Executive Director and a member of the Executive Committee of the Company; and ceased to be a member of the Audit Committee and the Chairman of the Nomination Committee of the Company with effect from 25 March 2013. He joined the Group in February 2001 and left the group on 28 February 2014.

**Mr. Shentu Jun**, aged 50, is currently a managing director of China Chengxin Financial Consultancy Co., Ltd.. He completed a bachelor degree in Economics at Renmin University of China, majoring in production distribution, in 1985 and obtained an Executive Master of Business Administration at China Europe International Business School ("CEIBS") in 2001. Mr. Shentu has been engaging in investment business for 19 years, with experience in various IPOs, restructuring for listing, corporate bond issuance, merger and acquisition of listed issuers in the PRC stock markets. Mr. Shentu is also currently the director of CEIBS Finance Club and the vice president of CEIBS Environmental Alumni Association. Mr. Shentu had been appointed as an Executive Director and a member of the Executive Committee of the Company with effect from 25 March 2013 and left the group on 30 January 2014.

**Mr. Tan Shu Jiang**, aged 45, holds a Bachelor Degree of German Language from Shanghai International Studies University. Mr. Tan has over 17 years of experience in the sales and marketing, technical and general management in the information technology businesses. He was a director of Barwinstart Cultural Communication Co., Limited which is principally engaged in the operation of internet business in the PRC. He joined the Group in January 2007.

**Mr. Song Jing Sheng**, aged 54, graduated from the postgraduate school of Chinese Academy of Social Sciences majoring in Finance. He has extensive experience in the banking and finance industry in the PRC. Mr. Song joined the Group in May 2005 and left the Group on 25 March 2013.

## NON-EXECUTIVE DIRECTOR

**Mr. Law Fei Shing**, aged 54, graduated from the Hong Kong Polytechnic in 1985. He is a member of American Institute of Certified Public Accountants (AICPA), an associate member of the Hong Kong Institute of Certified Public Accountant (HKICPA) and a practicing certified public accountant in Hong Kong.

Mr. Law is the company secretary of Orient Securities International Holdings Ltd. (stock code: 8001), a company listed on the GEM Board of the Stock Exchange. He has been the executive director of Energy International Investments Holdings Limited (stock code: 353) and Bestway International Holdings Limited (stock code: 718), both listed on the Main Board of the Stock Exchange, for the period from August 2004 to January 2012 and from January 2009 to May 2013 respectively. He was appointed as an executive director of Anxian Yuan China Holdings Limited (stock code: 922), listed on the Main Board of the Stock Exchange since 10 June 2009. Since August 2013, he has also been an executive director of Pak Tak International Limited (stock code: 2668), listed on the Main Board of the Stock Exchange. Mr. Law has been appointed as an Non-executive Director and a member of Nomination Committee of the Company with effect from 30 January 2014.



# BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Mr. Chan Ming Sun, Jonathan**, aged 41, graduated from the University of New South Wales, Australia with a Bachelor of Commerce degree in Accounting and Computer Information Systems. Mr. Chan is both member of the Hong Kong Institute of Certified Public Accountants and Certified Practising Accountants, Australia. He has extensive working experience in accounting, investment and corporate finance. Mr. Chan worked in an international accounting firm for about five years and currently, he is an associate director of Go-To-Asia Investment Limited.

Mr. Chan is also an independent non-executive director of Xiang Yu Dredging Holdings Limited (Stock code: 871), Hao Tin Resources Group Limited (Stock code: 474), whose securities are listed on the main board of The Stock Exchange of Hong Kong Limited (The "Stock Exchange"), and of the China Data Broadcasting Holdings Limited (Stock code: 8016), whose securities are listed on the growth enterprise market of the Stock Exchange. He was also an independent non-executive director of Capital VC Limited (Stock code: 2324), a company whose securities are listed on the main board of The Stock Exchange, between August 2004 and April 2012. Mr. Chan had been appointed as an Independent Non-executive Director, a member of the Audit Committee and Nomination Committee and the Chairman of the Remuneration Committee of the Company with effect from 25 March 2013 and left the group on 28 February 2014.

**Mr. Lai Yip Wing**, aged 60, an Associate member of The Chartered Institute of Bankers, holds a master degree in History from the Chinese University of Hong Kong. He is renowned as an experienced banker in the Asia-Pacific capital market. Mr. Lai was previously a managing director of Calyon, an executive director of Manufacturers Hanover Asia and head of Hong Kong Bond Business of BNP Paribas. He is also the co-founder of Oakreed Financial Services Limited. Mr. Lai had been appointed as an Independent Non-executive Director, a member of the Audit Committee and Remuneration Committee and the Chairman of the Nomination Committee of the Company with effect from 25 March 2013 and left the group on 30 January 2014.

**Mr. Chong Yiu Kan, Sherman**, aged 50, is an Independent Non-executive Director. He joined the Group in September 2004. Mr. Chong obtained a Master Degree in Business Administration from the University of Hong Kong. He is a Certified Public Accountant (Practising) of the Hong Kong Institute of Certified Public Accountants. Mr. Chong is currently an independent non-executive director of Zhi Cheng Holdings Limited (Stock Code: 8130) listed in the GEM Board of the Stock Exchange. He has over 26 years of working experience in auditing, accounting, taxation and management consultancy. He is the sole proprietor of Sherman Chong & Co. (CPA).

**Mr. Lum Pak Sum**, aged 52, obtained a master's degree in business administration from The University of Warwick in 1994 and a bachelor's degree in laws from University of Wolverhampton in 2002 by way of distanced learning. He is currently a non-practicing member of the Hong Kong Institute of Certified Public Accountants and The Association of Chartered Certified Accountants.



Mr. Lum has been a non-executive director of Orient Securities International Holdings Limited (stock code: 8001), listed on the GEM Board of the Stock Exchange, since April 2011. He has also been an independent non-executive director of Energy International Investments Holdings Limited (stock code: 353), Bestway International Holdings Limited (stock code: 718) and Radford Capital Investments Limited (stock code: 901), listed on the Main Board of the Stock Exchange, for the period from September 2005 to July 2011, from March 2010 to May 2013 and from May 2010 to November 2013, respectively. Since August 2007, April 2009 and November 2010, Mr. Lum has been an independent non-executive director of Great China Properties Holdings Limited (formerly known as Waytung Global Group Limited) (stock code: 21), Karce International Holdings Company Limited (stock code: 1159) and Asia Resources Holdings Limited (stock code: 899), listed on the Main Board of the Stock Exchange, respectively. He has also been an independent director of Asia Green Agriculture Corporation, a company trading on the Over-the-Counter Bulletin Board in the United States of America, since September 2011. Mr. Lum has been appointed as an Independent Non-executive Director, a member of Audit Committee and Remuneration Committee and the Chairman of the Nomination Committee of the Company with effect from 30 January 2014.

**Mr. Wong Po Yan**, *GBM, CBE, JP*, aged 89, is an Independent Non-executive Director. He joined the Group in June 1998. He is the founder of United Oversea Enterprises, Ltd., the Honorary President of Chinese Manufacturers Association of Hong Kong. Mr. Wong was formerly the Vice Chairman of the Basic Law Committee of Hong Kong under the Standing Committee of the National People's Congress of the PRC, and a member of the Hong Kong Legislative Council, the Chairman of the Airport Authority of Hong Kong. Mr. Wong holds an Honorary Doctorate Degree in Business Administration from the City University of Hong Kong and an Honorary Doctorate Degree in Social Science from Hong Kong Baptist University. Mr. Wong is currently an independent non-executive director of Sinopec Kantons Holdings Limited (stock code: 934). Mr. Wong left the Group on 25 March 2013.

## SENIOR MANAGEMENT

**Mr. Chan Ying Kay**, aged 50, Company Secretary and Qualified Accountant of the Company. Mr. Chan is also the Chief Financial Officer of the Company. Mr. Chan is responsible for the financial management, corporate finance and company secretarial matters of the Group. Mr. Chan joined the Group in April 2003 and has over 25 years of experience in accounting and finance. Mr. Chan is a fellow member of both the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants.



# REPORT OF THE DIRECTORS

The Directors hereby present the annual report together with the audited consolidated financial statements of the Company and its subsidiaries (together the “Group”) for the year ended 31 December 2013.

## 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 31 to the consolidated financial statements.

The analysis of the segment information is set out in note 14 to the consolidated financial statements.

## CHANGE OF NAME

At an extraordinary general meeting of shareholders of the Company held on 8 July 2013, a special resolution was passed to change the English name of the Company from “FinTronics Holdings Company Limited” to “Beautiful China Holdings Company Limited” and adopt the Chinese name “美麗中國控股有限公司” as the Company’s secondary name to replace “銀創控股有限公司”.

## RESULTS

The results of the Group for the year ended 31 December 2013 and the state of the Group’s affairs as at that date are set out in the consolidated financial statements on pages 38 to 86.

## GROUP FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five years are set out on page 86.

## MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group’s sales and purchases attributable to the major customers and suppliers respectively during the financial year is as follows:

	Percentage of the Group’s total	
	Sales	Purchases
The largest customer	43	Nil
Five largest customers in aggregate	100	Nil
The largest supplier	Nil	Nil
Five largest suppliers in aggregate	Nil	Nil

None of the Directors, their associates, or any shareholders (which to the knowledge of the Directors own more than 5% of the Company’s share capital) had an interest in the major customers and suppliers noted above.



## PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year ended 31 December 2013 are set out in note 16 to the consolidated financial statements.

## OTHER BORROWINGS

Particulars of other borrowings of the Group as at 31 December 2013 are set out in note 21 to the consolidated financial statements.

## SHARE CAPITAL

Details of movements in the share capital of the Company during the year are set out in note 25 to the consolidated financial statements.

## SHARE PREMIUM AND RESERVES

Details of movements in the reserves of the Group are set out in the consolidated statement of changes in equity.

## DISTRIBUTABLE RESERVES

As at 31 December 2013, the Company has no reserve available for cash distribution (2012: Nil) as computed in accordance with the Bermuda Companies Act 1981 (as amended). In addition, the Company's share premium account of approximately HK\$489,081,000 as at 31 December 2013 may be distributed in the form of fully paid bonus shares.

## EMOLUMENT POLICY

A remuneration committee has been set up for reviewing the Group's emolument policy and structure for all remuneration of directors and senior management of the Group, having regard to the Group's operating results, individual performance and comparable market practices.

The Company has adopted a share option scheme as incentive to directors and eligible employees, details of the scheme are set out in the section headed "Share Option Scheme" below.



# REPORT OF THE DIRECTORS

## DIRECTORS

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

### Executive Directors

Mr. Sze Wai, Marco, *Chairman and Chief Executive Officer*

Mr. Tan Shu Jiang

Mr. Shentu Jun (appointed on 25 March 2013 and resigned on 30 January 2014)

Mr. Mao Zhenhua (resigned on 28 February 2014)

Mr. Song Jing Sheng (resigned on 25 March 2013)

### Non-executive Director

Mr. Law Fei Shing (appointed on 30 January 2014)

### Independent Non-executive Directors

Mr. Chong Yiu Kan, Sherman

Mr. Lum Pak Sum (appointed on 30 January 2014)

Mr. Chan Ming Sun Jonathan (appointed on 25 March 2013 and resigned on 28 February 2014)

Mr. Lai Yip Wing (appointed on 25 March 2013 and resigned on 30 January 2014)

Mr. Wong Po Yan (resigned on 25 March 2013)

Non-executive Director and Independent Non-executive Directors are not appointed for a specific term. All the Directors are subject to retirement by rotation and re-election at the annual general meeting in accordance with the bye-laws of the Company.

In accordance with Bye-law 111(A), Mr. Chong Yiu Kan, Sherman will retire by rotation at the forthcoming annual general meeting. Further, pursuant to Bye-law 115 of the Bye-laws, the office of each of Mr. Law Fei Shing and Mr. Lum Pak Sum will end at the annual general meeting. Each of Mr. Chong Yiu Kan, Sherman, Mr. Law Fei Shing and Mr. Lum Pak Sum will be eligible, offer themselves for re-election at the annual general meeting.

The Company has received from each of the Independent Non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and the Board still considers each of the Independent Non-executive Directors to be independent as at the date of this report.

## DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Brief biographical details of directors and senior management are set out on pages 7 to 9 of this report.

## DIRECTORS' SERVICE CONTRACTS

None of the Directors for re-election at the forthcoming annual general meeting has an unexpired service contract with the Company 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' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2013, the interests and short positions of the Directors and chief executive of the Company in the share or underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provision of the SFO), or which were required pursuant to section 352 of the SFO to be entered in the register maintained by the Company referred to therein, or which were required pursuant to Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules to be notified to the Company and the Stock Exchange were as follows:

Name	Name of company	Capacity	Number and class of securities (note 1)
Sze Wai, Marco	The Company	Interest of controlled corporation (note 2)	476,909,906 ordinary shares (L)
	The Company	Beneficial owner	2,500,000 ordinary shares (L) (note 3)
Mao Zhenhua	The Company	Beneficial owner	2,500,000 ordinary shares (L) (note 3)
Chong Yiu Kan, Sherman	The Company	Beneficial owner	2,650,000 ordinary shares (L) (note 4)
Tan Shu Jiang	The Company	Beneficial owner	4,000,000 ordinary shares (L) (note 3)

*Notes:*

1. The letter "L" represents the Director's interests in the Shares and underlying shares of the Company.
2. These shares were held by Leading Value Industrial Limited and Global Prize Limited, companies wholly owned by Sze Wai, Marco.
3. These shares were the shares which would be allotted and issued upon exercise in full of the options granted to such Director under the share option schemes of the Company.
4. Included in these shares were (i) 650,000 issued shares and (ii) 2,000,000 shares would be allotted and issued upon exercise of the options in full granted to him under the share option scheme of the Company.



# REPORT OF THE DIRECTORS

## **DIRECTORS' AND CHIEF EXECUTIVE'S INTEREST AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES** *(Continued)*

Save as disclosed above, as at 31 December 2013, none of the Directors and the chief executive of the Company had any interest and short positions in the shares or underlying shares of the Company or its associated corporations (within the meaning of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he was taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register maintained by the Company referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

## **SHARE OPTION SCHEME**

Prior to 23 May 2002, the Company operated an option scheme whereby the Board of Directors could, at their absolute discretion, grant options to employees and executive directors of the Company and any of its subsidiaries to subscribe for shares in the Company (the "Old Scheme"). On 23 May 2002, the Old Scheme was terminated and a new share option scheme (the "New Scheme") was adopted for a period of ten years, whereby the Board of Directors may, at their absolute discretion, grant options to any eligible employees, non-executive directors, any suppliers and customers of the Company or any of its subsidiaries or any invested entity to subscribe for shares in the Company.

For options granted before 1 September 2001, the exercise price of options was the higher of the nominal value of the shares and 80% of the average closing prices of the shares of the Company on the Stock Exchange for the five trading days immediately preceding the date of offer of the options. For options granted after 1 September 2001, the exercise price of the options shall not be lower than the highest of (i) the nominal value of the shares, (ii) the closing price of the shares on the Hong Kong Stock Exchange on the date of offer of the options, which must be a trading day, and (iii) the average closing price of the shares on the Stock Exchange for the five trading days immediately preceding the date of offer of the options.

The total number of shares which may be issued upon exercise of all options to be granted under the New Scheme and any other operative share option schemes of the Group may not in aggregate exceed 105,778,000, being 10% of the shares in issue of the Company as at 30 June 2006, the date of which the resolution is passed pursuant to the share option scheme.



## SHARE OPTION SCHEME *(Continued)*

The unexercised outstanding share options as at 31 December 2013 are as follows:

Grantee	Date granted	Exercisable period	Number of share options				
			Exercise price of options HK\$	Outstanding at 1.1.2013	Exercised during the year	Lapsed during the year	Outstanding at 31.12.2013
<b>New Scheme</b>							
<b>Directors</b>							
Mao Zhenhua	31 Oct 2006	1 May 2007 – 30 Oct 2016	0.250	1,000,000	–	–	1,000,000
	24 Jun 2009	24 Dec 2009 – 23 Jun 2019	0.270	1,500,000	–	–	1,500,000
Song Jing Sheng	31 Oct 2006	1 May 2007 – 30 Oct 2016	0.250	2,000,000	–	(2,000,000)	–
	24 Jun 2009	24 Dec 2009 – 23 Jun 2019	0.270	1,500,000	–	(1,500,000)	–
Sze Wai, Marco	31 Oct 2006	1 May 2007 – 30 Oct 2016	0.250	1,000,000	–	–	1,000,000
	24 Jun 2009	24 Dec 2009 – 23 Jun 2019	0.270	1,500,000	–	–	1,500,000
Tan Shu Jiang	24 Jun 2009	24 Dec 2009 – 23 Jun 2019	0.270	4,000,000	–	–	4,000,000



# REPORT OF THE DIRECTORS

## SHARE OPTION SCHEME (Continued)

Grantee	Date granted	Exercisable period	Number of share options				
			Exercise price of options <i>HK\$</i>	Outstanding at 1.1.2013	Exercised during the year	Lapsed during the year	Outstanding at 31.12.2013
<b>Independent non-executive directors</b>							
Chong Yiu Kan,	31 Oct 2006	1 May 2007 – 30 Oct 2016	0.250	500,000	–	–	500,000
Sherman	24 Jun 2009	24 Dec 2009 – 23 Jun 2019	0.270	1,500,000	–	–	1,500,000
Wong Po Yan	31 Oct 2006	1 May 2007 – 30 Oct 2016	0.250	1,000,000	–	(1,000,000)	–
	24 Jun 2009	24 Dec 2009 – 23 Jun 2019	0.270	1,500,000	–	(1,500,000)	–
<b>Employees</b>							
	20 Mar 2006	20 Mar 2006 – 19 Mar 2016	0.122	2,000,000	–	–	2,000,000
	04 Oct 2006	4 Apr 2007 – 3 Oct 2016	0.213	1,000,000	–	–	1,000,000
	24 Jun 2009	24 Dec 2009 – 23 Jun 2019	0.270	20,700,000	–	–	20,700,000
				40,700,000	–	(6,000,000)	34,700,000



## SHARE OPTION SCHEME *(Continued)*

The share options are exercisable for a period of ten years commencing from the date of grant and subject to the vesting provisions are as follows:

<b>Date granted</b>	<b>Vesting period</b>	<b>Percentage of options vested</b>
20.03.2006	20.03.2006 – 19.03.2016	100%
04.10.2006	04.10.2006 – 03.04.2007	Nil
	04.04.2007 – 03.10.2007	50%
	04.10.2007 – 03.10.2016	100%
31.10.2006	31.10.2006 – 30.04.2007	Nil
	01.05.2007 – 31.10.2007	50%
	01.11.2007 – 30.10.2016	100%
24.06.2009	24.06.2009 – 23.12.2009	Nil
	24.12.2009 – 23.06.2019	100%

There was no share options exercised during the year (2012: Nil). The options outstanding at the end of the year have a weighted average remaining contractual life of 6.02 years (2012: 5.9 years) and the exercise prices range from HK\$0.122 to HK\$0.270 (2012: HK\$0.122 to HK\$0.270).

There was no share-based compensation costs recognised during the year (2012: Nil).

Apart from the foregoing, at no time during the year was the Company, its holding company, subsidiaries or fellow subsidiaries a party to any arrangements to enable the Company's Directors or chief executive or any of their spouses or children under eighteen years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company, or any other body corporate.



# REPORT OF THE DIRECTORS

## SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS WHO ARE REQUIRED TO DISCLOSE THEIR INTERESTS PURSUANT TO PART XV OF THE SFO

As at 31 December 2013, the following persons and entities, other than a Director or chief executive of the Company, had an interest or a short position in the shares and underlying shares in the Company as recorded in the register required to be kept under section 336 of the SFO:

Name of shareholder	Number of ordinary shares (Note 1)	Capacity	Approximate percentage of interest
Leading Value Industrial Limited (Note 2)	474,869,906 (L)	Beneficial owner	22.21
Global Prize Limited (Note 2)	2,040,000 (L)	Beneficial owner	0.10

Notes:

1. The letter "L" represents the entity's interests in the Shares.
2. Leading Value Industrial Limited and Global Prize Limited are Companies wholly owned by Sze Wai, Marco, who is an Executive Director.

Save as disclosed above, as at 31 December 2013, no person or entity other than a Director or chief executive of the Company, had an interest or a short position in the shares and underlying shares in the Company as recorded in the register required to be kept under section 336 of the SFO.

## DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed in the section headed "Share Option Schemes" above, at no time during the year was the Company, its holding company, subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors of the Company or their associates to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

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

During the year ended 31 December 2013, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.



## COMPETING BUSINESS INTERESTS OF DIRECTORS

None of the Directors and their respective associates had any interest in a business which competes or may compete with the business of the Group.

## PRE-EMPTIVE RIGHTS

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

## RETIREMENT SCHEME

The Company and its Hong Kong subsidiaries operate Mandatory Provident Fund Schemes (the “MPF schemes”) under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF schemes are defined contribution retirement schemes administered by independent trustees. Under the MPF schemes, the employers and employees are each required to make contributions to the MPF schemes at 5% of the employees’ relevant income, subject to a cap of monthly relevant income of HK\$25,000 with effect from 1 June 2012 (before 1 June 2012: HK\$20,000). Contributions to the MPF schemes vest immediately.

The retirement benefits costs under the MPF schemes charged to the profit or loss amounted to HK\$184,000 (2012: HK\$179,000) during the year.

The subsidiaries of the Group in the PRC other than Hong Kong participate in pension schemes organised by the respective municipal governments whereby they are required to pay annual contributions at the rates ranging from 15% to 33% (2012: 15% to 33%) of the standard wages determined by the relevant authorities in the PRC.

Under the above schemes, retirement benefits of existing and retired employees are payable by the relevant PRC scheme administrators and the Group has no further obligations beyond the annual contributions.

The aggregate employers’ contributions by the Group under the PRC pension schemes amounted to HK\$1,493,000 (2012: HK\$680,000) during the year.

The Group does not operate any other scheme for retirement benefits provided to the Group’s employees.

## DIRECTORS’ INTERESTS IN CONTRACTS

No contract of significance to which the Company or its holding company or its subsidiaries was a party, subsisted at the end of the year or at any time during the year in which a director of the Company had a material interest.



# REPORT OF THE DIRECTORS

## CONNECTED TRANSACTIONS

During the year, there were no transactions which are required to be disclosed in accordance with announcement and reporting requirements under the Listing Rules.

## SUFFICIENCY OF PUBLIC FLOAT

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

## CORPORATE GOVERNANCE

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

## AUDITOR

The consolidated financial statements have been audited by RSM Nelson Wheeler, who will retire and a resolution for their reappointment as the auditor of the Company will be proposed at the forthcoming Annual General Meeting.

By order of the Board

**Beautiful China Holdings Company Limited**

**Sze Wai, Marco**

*Chairman*

Hong Kong, 26 March 2014

# CORPORATE GOVERNANCE REPORT



The board (the “Board”) of directors (the “Directors”) of the Company is pleased to present this Corporate Governance Report in the Group’s annual report for the year ended 31 December 2013.

## CORPORATE GOVERNANCE PRACTICES

The Board considers good corporate governance practices to be essential to the promotion of shareholder value and investor confidence.

The Board has adopted all the code provisions (the “Code Provisions”) as set out in the Corporate Governance Code (the “CG Code”) as stated in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Listing Rules”) as the code of the Company (the “Company Code”). The Board consistently monitors and reviews the Company’s corporate governance practices to ensure compliance.

During the year ended 31 December 2013, the Company has complied with all the Code Provisions with certain deviations mentioned below. The Company has committed to maintain high corporate governance standards. The Company devotes considerable efforts to identifying and formalizing the best corporate governance practices suitable to the Company’s needs. In addition, the Company reviews regularly its organizational structure to ensure operations are corresponding with good corporate governance practices as set out in the Code Provisions.

Subsequent to 31 December 2013, due to the resignation of Mr. Chan Ming Sun, Jonathan, effective from 28 February 2014 as an Independent Non-executive Director and a member of the audit committee of the Company and pending the appointment of another Independent Non-executive Director to the audit committee as soon as practicable and in any event within 3 months from 28 February 2014, the Company is not in compliance with the Rules 3.10(1) and 3.21 respectively.

The key corporate governance principles and practices of the Company are summarized as follows:



# CORPORATE GOVERNANCE REPORT

## THE BOARD

### Responsibilities

The Board is responsible for leadership and control of the Company and oversees the Group's businesses, strategic decisions and performance. The Board has also established Board committees and has delegated to these Board committees various responsibilities as set out in their respective terms of reference.

The Board reserves for its decisions all major matters of the Company, including approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those may involve conflict of interests), financial information, appointment of Directors and other significant financial and operational matters.

All Directors are committed to carry out their duties in good faith and in compliance with the applicable laws and regulations and in the best interests of the Company and its shareholders at all times.

The Board delegates day-to-day management, administration and operations of the Company to Executive Directors and senior management under the leadership of the Chief Executive Officer while reserving certain major matters for its approval. These major matters include, but are not limited to strategic policies, funding and capital investment decisions. The Board delegates certain functions and matters as set out in the terms of reference of the Board committees.

All Directors have full and timely access to all the relevant information as well as advice and services of the Company Secretary, with a view to ensuring that Board procedures and all applicable laws and regulations are followed. Each Director is normally able to seek independent professional advice in appropriate circumstances at the Company's expense, upon making request to the Board. All Directors of the Company take decisions objectively in the interests of the Company.



## THE BOARD *(Continued)*

### Board Composition

The Board comprises seven members, consisting of four Executive Directors and three Independent Non-executive Directors. The number of Independent Non-executive Directors represents more than one-third of the Board as required by Rule 3.10A of the Listing Rules.

The Board of the Company comprises the following Directors:

#### Executive Directors

Mr. Mao Zhenhua  
Mr. Shentu Jun  
Mr. Sze Wai, Marco  
Mr. Tan Shu Jiang

#### Independent Non-executive Directors

Mr. Chan Ming Sun, Jonathan  
Mr. Chong Yiu Kan, Sherman  
Mr. Lai Yip Wing

The list of Directors (by category) is set out under the section headed "Corporate Information" in this annual report and is also disclosed in all corporate communications issued by the Company from time to time pursuant to the Listing Rules and is available on the websites of the Company and the Stock Exchange.

The biographical information of the Directors, and the relationships amongst them, if any, are set out in the section headed "Biographical Details of Directors and Senior Management" on pages 7 to 9 of this annual report.

During the year ended 31 December 2013, the Board at all times met the requirements of the Listing Rules relating to the composition and number of Independent Non-executive Directors in the Board by appointing at least three Independent Non-executive Directors with at least one of whom possessing appropriate professional qualifications or accounting or related financial management expertise. The Company has received written annual confirmation from each Independent Non-executive Director of his independence pursuant to the requirements of the Listing Rules. The Board, on the recommendation of the Nomination Committee, considers all Independent Non-executive Directors are independent in accordance with the independence guidelines set out in Rule 3.13 of the Listing Rules.

All Directors, including 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. Independent Non-executive Directors have been appointed to serve on the Audit Committee, Remuneration Committee and Nomination Committee of the Company.



# CORPORATE GOVERNANCE REPORT

## THE BOARD *(Continued)*

### **Appointment, Re-election and Succession Planning of Directors**

On 27 March 2012, the Company adopted the procedures for shareholders of the Company (the "Shareholders") to propose a person for election as a Director. These procedures are available and accessible on the Company's website at <http://www.beautifulchina.com.hk>.

The procedures and process of appointment, re-election and removal of Directors are laid down in the Company's Bye-Laws. The Board established a Nomination Committee to review the structure, size and composition of the Board, identify suitable candidates to the Board, and to make recommendations on any matters in relation to the appointment or re-appointment of members of the Board. Appointment of new Directors is reserved for the Board's approval.

The Nomination Committee ensures that the Board comprises members with a diverse range of skills, knowledge, experience and the diversity necessary to oversee the Group's business development, strategies, operations, challenges and opportunities. The Nomination Committee takes into account of that person's skills, qualifications and expected contributions to the Company before making any recommendations to the Board in relation to the appointment or re-appointment of members of the Board. Mr. Chong Yiu Kan, Sherman has served the Company as Independent Non-executive Directors of the Company for more than nine years and do not have any management role in the Company. The Board considers that he has made considerable contributions to the Company with their relevant experience and knowledge throughout his years of service and he has maintained an independent view in relation to the Company's affairs.

Where vacancies on the Board exist, the Board will carry out the selection process, with the advice provided by the Nomination Committee, by making reference to the skills, experience, professional knowledge, diversity, personal integrity and time commitments of the proposed candidates, the Company's needs and other relevant statutory requirements and regulations. An external recruitment agency may be engaged to carry out the recruitment and selection process when necessary.

Pursuant to Article 115 of the Company's Bye-Laws, any Director appointed by the Board shall hold office only until the next following general meeting of the Company (in case of filling of casual vacancy) or the next following annual general meeting of the Company (in case of appointment of additional Director), and shall then be eligible for re-election.

The Code Provision A.4.1 stipulates that Non-executive Directors shall be appointed for a specific term, subject to re-election. Although the Independent Non-executive Directors of the Company are not appointed for a specific term, they are subject to retirement by rotation at least once every three years in accordance with Article 111(A) of the Company's Bye-Laws. Pursuant to Article 111(A) of the Company's Bye-Laws, Mr. Chong Yiu Kan, Sherman shall retire by rotation and being eligible, offer themselves for re-election at the forthcoming annual general meeting.



## THE BOARD *(Continued)*

### Training for Directors

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

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

### Insurance Cover for Directors

During the year ended 31 December 2013, the Company has arranged appropriate insurance cover in respect of legal action against its Directors to comply with the requirement of the Code Provisions.

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The Code Provision A.2.1 stipulates that the roles of Chairman and Chief Executive Officer should be separate and should not be performed by the same individual. The Company does not have a separate Chairman and Chief Executive Officer and Mr. Sze Wai, Marco currently holds both positions. The Board considers that this structure will not impair the balance of power and authority between the Board and the management. Also, vetting the roles of both Chairman and Chief Executive Officer in the same person provides the Group with strong and consistent leadership and allows for more effective planning and execution of business decisions and long term business strategies. The balance of power is further ensured by the following reasons:

- Audit Committee is comprised exclusively of all independent non-executive Directors;
- The independent non-executive Directors have free and direct access to the Company's external auditors and independent professional advices when considered necessary.

The Board believes that the present structure is considered to be appropriate under the current size of operation, enabling the Company to make and implement decisions promptly and efficiently. Such arrangement will be subject to review by the Board from time to time.



# CORPORATE GOVERNANCE REPORT

## BOARD COMMITTEES

The Board has established three committees, namely, the Remuneration Committee, Audit Committee and Nomination Committee as required by the Listing Rules, 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 at <http://www.beautifulchina.com.hk> and the Stock Exchange's website at <http://www.hkexnews.hk> and are available to Shareholders upon request. Board committees report to the Board on their work, findings, recommendations and decisions pursuant to their terms of reference.

Board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expense.

### Remuneration Committee

The Remuneration Committee comprises four members, namely, Mr. Chan Ming Sun, Jonathan (Chairman), Mr. Lai Yip Wing, Mr. Chong Yiu Kan, Sherman and Mr. Sze Wai, Marco. The majority of the members of the Remuneration Committee are Independent Non-executive Directors.

The main duties and responsibilities of the Remuneration Committee are to (i) make recommendations on the establishment of procedures for developing remuneration policy and structure of the Executive Directors and management, such policy shall ensure that no Director or any of his associates will participate in deciding his own remuneration; (ii) determine with delegated responsibility the remuneration packages of the Executive Directors and management; and (iii) review and approve management's remuneration proposals with reference to the Board's corporate goals and objectives.

Human Resources Department is responsible for collection and administration of the human resources data and making recommendations to the Remuneration Committee for consideration. The Remuneration Committee consults with the Chairman of the Company about these recommendations on remuneration policy and structure and remuneration packages.

During the year ended 31 December 2013, the Remuneration Committee met once and reviewed and discussed the remuneration policy and structure of the Group, the current remuneration packages of the Directors and the management of the group for the year under review.

Attendance of each members at Remuneration Committee Meeting held during the year is set out as follows:

	Attendance	Percentage
<b>Independent Non-executive Directors</b>		
Mr. Chan Ming Sun, Jonathan ( <i>Chairman</i> )	1/1	100%
Mr. Lai Yip Wing	1/1	100%
Mr. Chong Yiu Kan, Sherman	1/1	100%
<b>Executive Director</b>		
Mr. Sze Wai, Marco	1/1	100%



## BOARD COMMITTEES *(Continued)*

### **Audit Committee**

The Company has established an audit committee with written terms of reference in accordance with Appendix 14 of the Listing Rules. The audit committee is delegated by the Board to review, in draft form, the Company's annual report and financial statements, interim report, and to provide advice and comments thereon to the Board. The audit committee is also responsible for reviewing and supervising the financial reporting process and internal controls of the Group. The audit committee has reviewed the annual results for the year ended 31 December 2013.

Following from the resignation of Mr. Chan Ming Sun, Jonathan, effective from 28 February 2014 as an Independent Non-executive Director of the Company and a member of the audit committee, the number of audit committee members has fallen below the minimum number required under the Listing Rules 3.21 since 28 February 2014 until a new member is appointed.

The Company adopted a whistleblowing policy for promoting high corporate governance standards and deterring wrongdoings. The policy aims at encouraging and enabling employees of the Group at all levels and others to report violations or suspected violations and to raise serious concerns about possible improprieties in matters of financial reporting or other matters of the Group.

The main duties of the Audit Committee include the following:

- To review the financial statements and reports and consider any significant or unusual items raised by the management or the external auditors before submission to the Board.
- To review the relationship with the external auditors by reference to the work performed by the auditors, their independence, fees and terms of engagement, and make recommendations to the Board on the appointment, reappointment and removal of external auditor.
- To review the adequacy and effectiveness of the Company's financial reporting system, internal control system and risk management system and associated procedures.
- To review arrangements that employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters of the Company and its subsidiaries (the "Arrangements"), and to ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action.

The Audit Committee held three meetings during the year ended 31 December 2013 to review the Listing Rules amendments relating to corporate governance, the interim and annual financial results and reports, financial reporting and compliance procedures, financial control system, internal control system, risk management system, the adequacy of resources, accounting staff qualifications and experience, training programmes, budget of the Company's accounting, financial reporting function and the re-appointment of the external auditor.

## BOARD COMMITTEES *(Continued)*

### Audit Committee *(Continued)*

The Audit Committee meets the external auditor, twice times in the absence of management, to discuss issues regarding audit or any matters that the external auditor may wish to raise to the Audit Committee.

The Audit Committee regularly reviews the internal control system and the risk management system of the Company and reports to the Board on any variance or risks identified by the management and makes recommendations to the Board in respect of any actions, as appropriate.

The Company's annual results for the year ended 31 December 2013 have been reviewed by the Audit Committee.

Attendance of each members at Audit Committee Meeting held during the year is set out as follows:

	Attendance	Percentage
Mr. Chong Yiu Kan, Sherman ( <i>Chairman</i> )	3/3	100%
Mr. Lai Yip Wing	3/3	100%
Mr. Chan Ming Sun, Jonathan	3/3	100%

### Nomination Committee

The Nomination Committee comprises four members namely, Mr. Lai Yip Wing (Chairman), Mr. Chan Ming Sun, Jonathan, Mr. Chong Yiu Kan, Sherman and Mr. Sze Wai, Marco. The majority of the members of the Nomination Committee are Independent Non-executive Directors.

In light of the amendments of the Listing Rules which, became effective on 1 September 2013, the Board adopted a revised terms of reference of the Nomination Committee on 30 August 2013. The revised terms of reference of the Nomination Committee are available on the websites of the Company and the Stock Exchange.

The primary functions of the Nomination Committee include the following:

- To review the structure, size and composition (including the skills, knowledge, experience and diversity) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy.
- To identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships.
- To assess the independence of the Independent Non-executive Directors.
- To make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the Chairman of the Board and the Chief Executive Officer.



## BOARD COMMITTEES *(Continued)*

### Nomination Committee *(Continued)*

One nomination committee meeting was held during the year ended 31 December 2013 to inter alia, review the structure, size and composition of the Board and the independence of the Independent Non-executive Directors. Attendance of each members at Nomination Committee Meeting held during the year is set out as follows:

	Attendance	Percentage
<b>Independent Non-executive Directors</b>		
Mr. Lai Yip Wing <i>(Chairman)</i>	1/1	100%
Mr. Chan Ming Sun, Jonathan	1/1	100%
Mr. Chong Yiu Kan, Sherman	1/1	100%
<b>Executive Director</b>		
Mr. Sze Wai, Marco	1/1	100%

### Number of Meetings and Directors' Attendance

During the year ended 31 December 2013, the Board held four regular meetings. During these meetings, Directors discussed and approved overall strategies and policies of the Group, reviewed and monitored financial and operational performance, approved the annual and interim results of the Group and discussed the business development of the Group.

Attendance of individual Directors at Board Meetings held during the year:-

	Attendance	Percentage
<b>Executive Directors</b>		
Mr. Sze Wai, Marco	3/4	75%
Mr. Mao Zhenhua	3/4	75%
Mr. Tan Shu Jiang	4/4	100%
Mr. Shentu Jun	3/3	100%
<b>Independent Non-executive Directors</b>		
Mr. Lai Yip Wing	3/3	100%
Mr. Chan Ming Sun, Jonathan	3/3	100%
Mr. Chong Yiu Kan, Sherman	4/4	100%

## **BOARD COMMITTEES** *(Continued)*

### **Number of Meetings and Directors' Attendance** *(Continued)*

Apart from the above-mentioned Board meetings, the Chairman of the Board held a meeting with all the Independent Non-executive Directors without the presence of the Executive Directors during the year ended 31 December 2013 for discussing, inter alia, Directors' time commitments and contribution in performing their responsibilities to the Company, and the Group's strategy.

### **Practices and Conduct of Meetings**

Annual meeting schedules and draft agenda of each meeting are normally made available to Directors in advance.

Notices of regular Board meetings are served to all Directors at least 14 days before the meetings. For other Board and committee meetings, reasonable notice is generally given.

Board papers are sent to all Directors to keep the Directors apprised of the latest developments and financial position of the Company and to enable them to make informed decisions in accordance with the Code Provisions. The Board and each Director also have separate and independent access to the senior management whenever necessary.

The management has provided all members of the Board with monthly updates giving a balanced and understandable assessment of the Company's performance, position and prospects in sufficient detail to enable the Board as a whole and each Director to discharge their duties.

The senior management are invited to attend Board and committee meetings to give advice on business developments, financial and accounting matters, statutory compliance, corporate governance and other major aspects of the Company.

The Company Secretary is responsible to take and keep minutes of all Board meetings and committee meetings. Draft minutes are normally circulated for comment within a reasonable time after each meeting and the final version is open for Directors' inspection.

According to current Board practice, any material transaction, which involves a conflict of interests for a substantial shareholder or a Director, will be considered and dealt with by the Board at a duly convened Board meeting. The Company's Bye-Laws also contain provisions requiring Directors to abstain from voting and not to be counted in the quorum at meetings for approving transactions in which such Directors or any of their associates have a material interest.



## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 of the Listing Rules, as the Code of conduct regarding directors’ securities transactions. Having made specific enquiry of all directors, they all confirmed that they have complied with the Model Code throughout the year ended 31 December 2013.

## 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 2013.

The Directors are responsible for overseeing the preparation of financial statements of the Company with a view to ensure that such financial statements give a true and fair view of the state of affairs of the Group and that relevant statutory and regulatory requirements and applicable accounting standards are complied with.

The Board has received from the management explanation and relevant information which enable the Board to make an informed assessment for approving the financial statements.

## AUDITOR’S REMUNERATION

The statement of the external auditor of the Company about its reporting responsibilities on the financial statements is set out in the “Independent Auditor’s Report” on pages 36 to 37.

The Audit Committee reviews the appointment of external auditor on an annual basis including a review of the audit scope and audit fee and makes the recommendation to the Board for approval. During the year, the fee payable to the external auditor for the annual audit amounted to HK\$930,000 and fee for non-audit related activities amounted to HK\$50,000.



# CORPORATE GOVERNANCE REPORT

## INTERNAL CONTROL

The Board is responsible for maintaining an adequate internal control system to safeguard Shareholders' investments and the Company's assets, and reviewing the effectiveness of such on an annual basis through the Audit Committee.

During the year under review, the Board, through the Audit Committee, conducted a review of the effectiveness of the internal control system of the Group, including the adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting and financial reporting function. The review covered relevant financial, operational and compliance controls as well as risk management functions. The Audit Committee, in turn, reports to the Board on any material issues and makes recommendations to the Board as appropriate. The Board has concluded that the internal control system of the Group is adequate and operating effectively.

The management also conducts periodic reviews on the operations of individual divisions to identify any irregularities and risks, develops action plans and recommendations to address the identified risks and to report to the Audit Committee on any key findings.

## COMMUNICATION WITH SHAREHOLDERS

The Company uses two-way communication channels to account to Shareholders for the performance of the Company. All the Shareholders have at least 20 clear business days' notice of annual general meeting at which directors are available to answer questions on the business. In an effort to enhance the communication, the Company provides information relating to the Company and its business in its annual report and interim report and also disseminates such information electronically through its website at [www.beautifulchina.com.hk](http://www.beautifulchina.com.hk). Specific enquiries from Shareholders can be sent in writing to the Company at our head office in Hong Kong or by email or through the Company's Investor Relations Adviser.

In order to provide effective disclosure to Shareholders and to ensure they all receive equal access to the same information at the same time, information considered to be of a price sensitive nature is released by way of formal public announcement as required by the Listing Rules.

The Board has adopted a Shareholders' communication policy setting out the Company's procedures in providing the Shareholders with prompt and equal access to information about the Company, in order to enable the Shareholders to access the Company's overall performance, exercise their rights in an informed manner and engage actively with the Company.

The 2013 Annual General Meeting ("AGM") was held on 18 June 2013. The notice of 2013 AGM was sent to Shareholders at least 20 Clear business days before the AGM.



## COMMUNICATION WITH SHAREHOLDERS *(Continued)*

The Company regards the AGM as an important event as it provides an opportunity for direct communication between the Board and its Shareholders. The code provision E.1.2 stipulates that the Chairman of the Board should attend the annual general meeting. The Chairman of the Board, Mr. Sze Wai was unable to attend the Company's annual general meeting which was held on 18 June 2013 as he had an overseas engagement that was important to the company's business. Although he was unable to attend, he had arranged for Mr. Tan Shu Jiang, an Executive Director and Mr. Chan Ying Kay, the Company Secretary of the Company who are well versed in all the business activities and operations of the Group, to attend on his behalf and to chair the meeting and to respond to Shareholders' questions.

The Company continues to enhance communication and relationships with its Shareholders. The Company's senior management has undertaken the role of establishing an effective communication system. They are responsible for responding to the enquiries from Shareholders or the media from time to time.

During the year under review, the Company has not made any changes to its Bye-Laws. An updated version of the Company's Bye-Laws is available on the websites of the Company and the Stock Exchange.

## SHAREHOLDERS' RIGHTS

To safeguard Shareholder interests and rights, a separate resolution is proposed for each substantially separate issue at Shareholder meetings, including the election of individual Directors. Save as provided under the Listing Rules, resolutions put to vote at the general meetings of the Company (other than procedural matters) are taken by poll and poll results will be posted on the websites of the Company and the Stock Exchange after the Shareholders' meetings.

Set out below are procedures by which Shareholders may: (1) convene an extraordinary general meeting; (2) put forward proposals at general meetings; (3) put forward enquiries to the Board. These procedures are generally governed by the provisions of the Company's Bye-Laws and applicable laws, rules and regulations, which prevail over what is stated in this section in case of inconsistencies.

### **Convening an Extraordinary General Meeting by Shareholders**

Extraordinary general meetings may be convened by the Directors on requisition of Shareholder(s) holding not less than one-tenth of the paid up capital of the Company. The objects of the meeting must be stated in the requisition which must be signed by the Requisitionist(s) and deposited at the registered office of the Company. Shareholders should follow the requirements and procedures as set out in the Company's Bye-Laws convening an extraordinary general meeting.



# CORPORATE GOVERNANCE REPORT

## **SHAREHOLDERS' RIGHTS** *(Continued)*

### **Putting Forward Proposals at General Meetings**

Pursuant to the Company's Bye-Laws, Shareholders representing not less than one-twentieth of the total voting rights of all Shareholders; or not less than 100 Shareholders may make requisition in writing for proposing resolution or business to be dealt with at the next general meeting. Shareholders should follow the requirements and procedures as set out in the Company's Bye-Laws for putting forward a proposal at a general meeting.

### **Putting Forward Enquiries to the Board**

Shareholders who have enquiries about the procedures for convening an extraordinary general meeting or putting forward proposals at general meetings may write to the Company Secretary.

Shareholders may send written enquiries to the Company Secretary who will direct the enquiries to the Board for handling. The contact details of the Company Secretary are as follows:

#### *Contact Details*

The Company Secretary  
Beautiful China Holdings Company Limited  
Units 2003 and 2005, 20th Floor,  
Great Eagle Centre,  
23 Harbour Road,  
Wanchai,  
Hong Kong  
Email: enquiry@beautifulchina.com.hk  
Tel No.: (852) 2234-9723  
Fax No.: (852) 2234-9738

For the avoidance of doubt, Shareholder(s) must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) 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.



## CORPORATE GOVERNANCE FUNCTIONS

In order to establish the duties and responsibilities of the Board in performing its corporate governance functions, the Board has adopted a corporate governance charter which sets out the corporate governance functions of the Board. The Board is responsible for the corporate governance functions with the following duties:

- To develop, review and update the Company's policies and practices on corporate governance.
- To review and monitor the training and continuous professional development of Directors and senior management.
- To review and monitor the Company's policies and practices in compliance with legal and regulatory requirements.
- To develop, review and monitor the code of conduct and compliance manual applicable to employees and Directors.
- To review the Company's compliance with the Revised Code and disclosure in the corporate governance report.
- To perform such other corporate governance duties and functions set out in the Revised Code for which the Board is responsible.

## COMPANY SECRETARY

The Company Secretary is responsible for advising the Board through the Chairman of the Board on governance matters and also facilitates induction and professional development of Directors. The Company Secretary reports to the Chairman of the Board. All Directors have access to the advice and services of the Company Secretary to ensure that Board procedures, all applicable law, rules and regulations are followed.

During the year ended 31 December 2013, Mr. Chan Ying Kay, the Company Secretary has undertaken no less than 15 hours of relevant professional training in compliance with Rule 3.29 of the Listing Rules.



**TO THE SHAREHOLDERS OF  
BEAUTIFUL CHINA HOLDINGS COMPANY LIMITED  
(FORMERLY KNOWN AS FINTRONICS HOLDINGS COMPANY LIMITED)**

*(Incorporated in Bermuda with limited liability)*

We have audited the consolidated financial statements of Beautiful China Holdings Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 38 to 86, which comprise the consolidated statement of financial position as at 31 December 2013, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and 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 disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## **AUDITOR'S RESPONSIBILITY**

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with section 90 of the Companies Act 1981 of Bermuda 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.



## AUDITOR'S RESPONSIBILITY *(Continued)*

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 judgement, 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 Group as at 31 December 2013, and of the Group's results 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 disclosure requirements of the Hong Kong Companies Ordinance.

### **RSM Nelson Wheeler**

*Certified Public Accountants*

Hong Kong

26 March 2014



# CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2013

	Note	2013 HK\$'000	2012 HK\$'000
<b>Turnover</b>	6	<b>9,561</b>	12,463
Other income and gains	7	<b>2,274</b>	4,907
Administrative expenses		<b>(51,551)</b>	(54,671)
Other operating expenses		<b>(2,473)</b>	(1,539)
<b>Loss from operations</b>		<b>(42,189)</b>	(38,840)
Finance costs	8	<b>(170)</b>	(274)
Impairment losses on intangible assets	17	<b>(1,344)</b>	(1,364)
Impairment losses on property, plant and equipment	16	<b>(539)</b>	(590)
<b>Loss before tax</b>		<b>(44,242)</b>	(41,068)
Income tax credit	9	<b>616</b>	665
<b>Loss for the year attributable to the owners of the Company</b>	10	<b>(43,626)</b>	(40,403)
<b>Loss per share</b>			
Basic	13(a)	<b>(2.04) cents</b>	(1.89) cents
Diluted	13(b)	<b>(2.04) cents</b>	(1.89) cents

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2013



	<i>Note</i>	<b>2013</b> <b>HK\$'000</b>	2012 <i>HK\$'000</i>
<b>Loss for the year attributable to the owners of the Company</b>		<b>(43,626)</b>	(40,403)
<b>Other comprehensive income for the year, net of tax</b>	15		
<i>Item that may be reclassified to profit or loss:</i>			
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong		<b>4,377</b>	1,334
<b>Total comprehensive income for the year attributable to the owners of the Company</b>		<b>(39,249)</b>	(39,069)



# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2013

	Note	2013 HK\$'000	2012 HK\$'000
<b>Non-current assets</b>			
Property, plant and equipment	16	6,476	16,491
Intangible assets	17	5,884	9,395
		<b>12,360</b>	25,886
<b>Current assets</b>			
Trade and other receivables	18	36,720	28,611
Bank and cash balances	19	103,213	131,108
		<b>139,933</b>	159,719
<b>Current liabilities</b>			
Trade and other payables	20	16,956	9,524
Finance lease payables	21	934	876
		<b>17,890</b>	10,400
<b>Net current assets</b>		<b>122,043</b>	149,319

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2013



	<i>Note</i>	<b>2013</b> <b>HK\$'000</b>	2012 <i>HK\$'000</i>
<b>Total assets less current liabilities</b>		<b>134,403</b>	175,205
<b>Non-current liabilities</b>			
Finance lease payables	21	<b>1,421</b>	2,355
Deferred tax liabilities	24	<b>613</b>	1,232
		<b>2,034</b>	3,587
<b>Net assets</b>		<b>132,369</b>	171,618
<b>Capital and reserves</b>			
Share capital	25	<b>213,808</b>	213,808
Reserves	27	<b>(81,439)</b>	(42,190)
<b>Total equity</b>		<b>132,369</b>	171,618

Approved and authorised for issue by the Board of Directors on 26 March 2014.

**Sze Wai, Marco**  
*Director*

**Tan Shu Jiang**  
*Director*



# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013

	Share capital HK\$'000	Share premium HK\$'000	Share option reserve HK\$'000	Translation reserve HK\$'000	Accumulated losses HK\$'000	Total equity HK\$'000
At 1 January 2012	213,808	489,081	7,578	40,393	(540,173)	210,687
Total comprehensive income for the year	-	-	-	1,334	(40,403)	(39,069)
Share options lapsed	-	-	(80)	-	80	-
Changes in equity for the year	-	-	(80)	1,334	(40,323)	(39,069)
At 31 December 2012	213,808	489,081	7,498	41,727	(580,496)	171,618
At 1 January 2013	<b>213,808</b>	<b>489,081</b>	<b>7,498</b>	<b>41,727</b>	<b>(580,496)</b>	<b>171,618</b>
Total comprehensive income for the year	-	-	-	4,377	(43,626)	(39,249)
Share options lapsed	-	-	(1,065)	-	1,065	-
Changes in equity for the year	-	-	(1,065)	4,377	(42,561)	(39,249)
At 31 December 2013	<b>213,808</b>	<b>489,081</b>	<b>6,433</b>	<b>46,104</b>	<b>(623,057)</b>	<b>132,369</b>

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2013



	2013 HK\$'000	2012 HK\$'000
<b>Cash flows from operating activities</b>		
Loss before tax	(44,242)	(41,068)
Adjustments for:		
Amortisation of intangible assets	2,385	2,664
Depreciation	7,787	8,575
Finance lease charges	170	228
Impairment losses on intangible assets	1,344	1,364
Impairment losses on property, plant and equipment	539	590
Interest expenses	–	46
Interest income	(2,271)	(4,907)
Impairment losses on other receivables	–	1,535
Loss on disposals of property, plant and equipment	2	–
Property, plant and equipment written off	2,388	3
<b>Operating loss before changes in working capital</b>	<b>(31,898)</b>	<b>(30,970)</b>
Decrease/(increase) in trade receivables	1,139	(249)
(Increase)/decrease in prepayments, deposits and other receivables	(9,248)	1,900
Increase in trade payables	171	12
Decrease in amount due to a director	–	(1)
Increase in other payables and accrued expenses	7,261	3,324
<b>Net cash flows used in operating activities</b>	<b>(32,575)</b>	<b>(25,984)</b>



# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2013

	Note	2013 HK\$'000	2012 HK\$'000
<b>Cash flows from investing activities</b>			
Decrease in pledged bank deposits		–	5,000
Payments for purchases of property, plant and equipment		(215)	(1,049)
Proceeds from disposals of property, plant and equipment		303	–
Interest received		2,271	4,907
<b>Net cash flows generated from investing activities</b>		<b>2,359</b>	8,858
<b>Cash flows from financing activities</b>			
Repayment of financial lease payables		(876)	(818)
Finance lease charge paid		(170)	(228)
Interest paid		–	(46)
<b>Net cash flows used in financing activities</b>		<b>(1,046)</b>	(1,092)
<b>Net decrease in cash and cash equivalents</b>		<b>(31,262)</b>	(18,218)
Effect of foreign exchange rates changes, net		3,367	1,064
<b>Cash and cash equivalents at 1 January</b>		<b>131,108</b>	148,262
<b>Cash and cash equivalents at 31 December</b>		<b>103,213</b>	131,108
<b>ANALYSIS OF CASH AND CASH EQUIVALENTS</b>			
Bank and cash balances	19	103,213	131,108



## 1. GENERAL INFORMATION

The Company was incorporated in Bermuda with limited liability. The address of its registered office is Clarendon House, 2 Church Street, Hamilton, HM 11, Bermuda. The address of its principal place of business is Units 2003 & 2005, 20/F., Great Eagle Centre, 23 Harbour Road, Wanchai, Hong Kong. The Company's shares are listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company is an investment holding company. The principal activities of its subsidiaries are set out in note 31 to the consolidated financial statements.

In the opinion of the directors of the Company, Mr. Sze Wai, Marco is the ultimate controlling party of the Company.

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

In the current year, the Group has adopted all of the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are relevant to its operations and effective for its accounting year beginning on 1 January 2013. HKFRSs comprise Hong Kong Financial Reporting Standards ("HKFRS"); Hong Kong Accounting Standards ("HKAS"); and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's financial statements and amounts reported for the current year and prior years except as stated below.

### i) Amendments to HKAS 1 "Presentation of Financial Statements"

Amendments to HKAS 1 titled Presentation of Items of Other Comprehensive Income introduce new optional terminology for statement of comprehensive income and income statement that has been applied by the Group. Under the amendments to HKAS 1, a statement of comprehensive income is renamed as a statement of profit or loss and other comprehensive income and an income statement is renamed as a statement of profit or loss. The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements.

The amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the change. Other than the above mentioned presentation changes, the application of the amendments to HKAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

### ii) HKFRS 10 “Consolidated financial statements”

HKFRS 10 “Consolidated Financial Statements” supersedes the requirements relating to consolidated financial statements in HKAS 27 (Revised) “Consolidated and Separate Financial Statements” and Hong Kong (SIC) Interpretation 12 “Consolidation – Special Purpose Entities”. HKFRS 10 introduces a single control model to determine whether an investee should be consolidated, by focusing on whether the entity has power over the investee, exposure to variable returns from its involvement with the investee and the ability to use its power to affect the amount of those returns. It requires the consolidation of an investee if the entity controls the investee on the basis of de facto circumstances.

The Group re-assessed the control conclusion for its investees as at 1 January 2013. As a result of the adoption of HKFRS 10, the Group has changed its accounting policy with respect to determining whether it has control over an investee. The adoption does not change any of the control conclusions reached by the Group in respect of its involvement with other entities as at 1 January 2013.

The Group has not applied the new HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a material impact on its results of operations and financial position.

## 3. SIGNIFICANT ACCOUNTING POLICIES

These financial statements have been prepared in accordance with HKFRSs issued by the HKICPA, accounting principles generally accepted in Hong Kong and the applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the Hong Kong Companies Ordinance.

These financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with HKFRSs requires the use of certain key assumptions and estimates. It also requires the directors to exercise their judgement in the process of applying the accounting policies. The areas where assumptions and estimates are significant to these financial statements, are disclosed in note 5 to the consolidated financial statements.



### 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

The significant accounting policies applied in the preparation of these financial statements are set out below.

#### (a) Consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries made up to 31 December. Subsidiaries are entities over which the Group has control. 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. The Group has power over an entity when the Group has existing rights that give it the current ability to direct the relevant activities, i.e. activities that significantly affect the entity's returns.

When assessing control, the Group considers its potential voting rights as well as potential voting rights held by other parties. A potential voting right is considered only if the holder has the practical ability to exercise that right.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date the control ceases.

Intragroup transactions, balances and unrealised profits are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

#### (b) Business combination

The acquisition method is used to account for the acquisition of a subsidiary in a business combination. The cost of acquisition is measured at the acquisition-date fair value of the assets given, equity instruments issued, liabilities incurred and contingent consideration. Acquisition-related costs are recognised as expenses in the periods in which the costs are incurred and the services are received. Identifiable assets and liabilities of the subsidiary in the acquisition are measured at their acquisition-date fair values.

The excess of the cost of acquisition over the Company's share of the net fair value of the subsidiary's identifiable assets and liabilities is recorded as goodwill. Any excess of the Company's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in the consolidated profit or loss as a gain on bargain purchase which is attributed to the Company.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (c) Foreign currency translation

#### (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.

#### (ii) *Transactions and balances in each entity's financial statements*

Transactions in foreign currencies are translated into the functional currency on initial recognition using the exchange rates prevailing on the transaction dates. Monetary assets and liabilities in foreign currencies are translated at the exchange rates at the end of each reporting period. Gains and losses resulting from this translation policy are recognised in profit or loss.

#### (iii) *Translation on consolidation*

The results and financial position of all the Group entities that have a functional currency different from the Company's presentation currency are translated into the Company's presentation currency as follows:

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- Income and expenses are translated at average exchange rates for the period (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and
- All resulting exchange differences are recognised in other comprehensive income and accumulated in the translation reserve.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings are recognised in the translation reserve. When a foreign operation is sold, such exchange differences are recognised in consolidated profit or loss as part of the gain or loss on disposal.

Fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.



### 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### (d) Property, plant and equipment

All property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

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. All other repairs and maintenance are recognised in profit or loss during the period in which they are incurred.

Depreciation of property, plant and equipment is calculated at rates appropriate to write off their cost over their estimated useful lives on a straight-line basis. The principal useful lives are as follows:

– Leasehold improvements	5 years
– Plant and machinery	5-10 years
– Furniture, fixtures and office equipment	3-5 years
– Motor vehicles	5 years

The useful lives and depreciation method are reviewed and adjusted, if appropriate, at the end of each reporting period.

The gain or loss on disposal of property, plant and equipment is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in profit or loss.

#### (e) Intangible assets

Customer contracts acquired in a business combination are identified and recognised separately from goodwill when they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such customer contracts is their fair value at the acquisition date. Customer contracts are amortised on a straight line basis over their contractual duration of ten years.

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



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (f) Leases

#### (i) *Operating leases*

Leases that do not substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as operating leases. Lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term.

#### (ii) *Finance leases*

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. At the commencement of the lease term, a finance lease is capitalised at the lower of the fair value of the leased asset and the present value of the minimum lease payments, each determined at the inception of the lease.

The corresponding liability to the lessor is included in the statement of financial position as finance lease payable. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Assets under finance leases are depreciated the same as owned assets over the shorter of the lease term and their estimated useful lives.

### (g) Recognition and derecognition of financial instruments

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

Financial assets are derecognised when the contractual rights to receive cash flows from the assets expire; the Group transfers substantially all the risks and rewards of ownership of the assets; or the Group neither transfers nor retains substantially all the risks and rewards of ownership of the assets but has not retained control on the assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised in other comprehensive income is recognised in profit or loss.

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



### 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### (h) Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. An allowance for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the allowance is the difference between the receivables' carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate computed at initial recognition. The amount of the allowance is recognised in profit or loss.

Impairment losses are reversed in subsequent periods and recognised in profit or loss when an increase in the receivables' recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the receivables at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

#### (i) Cash and cash equivalents

For the purpose of the statement of cash flows, cash and cash equivalents represent cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term highly liquid investments which are readily convertible into known amounts of cash and subject to an insignificant risk of change in value.

#### (j) Trade and other payables

Trade and other payables are stated initially at their fair value and subsequently measured at amortised cost using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost.

#### (k) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably.

Revenue from the provision of automatic teller machine ("ATM") services is recognised when the related services are rendered to customers.

Interest income is recognised on a time-proportion basis using the effective interest method.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (l) Employee benefits

#### *(i) Employee leave entitlements*

Employee entitlements to annual leave and long service leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave and long service leave as a result of services rendered by employees up to the end of the reporting period.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

#### *(ii) Pension obligations*

The Group contributes to defined contribution retirement schemes which are available to all employees. Contributions to the schemes by the Group and employees are calculated as a percentage of employees' basic salaries. The retirement benefit scheme cost charged to profit or loss represents contributions payable by the Group to the funds.

#### *(iii) Termination benefits*

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

### (m) Share based payments

The Group issues equity-settled share-based payments to certain directors and employees. Equity-settled share-based payments are measured at fair value (excluding the effect of non market-based vesting conditions) of the equity instruments at the date of grant. The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest and adjusted for the effect of non market-based vesting conditions.



### 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### (n) Taxation

Income tax represents the sum of the current tax and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit recognised in profit or loss because it includes items from previous years that were not deductible or taxable, excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

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

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

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised, based on tax rates that have been enacted or substantively enacted by the end of the reporting period. Deferred tax is recognised in profit or loss, except when it relates to items recognised in other comprehensive income or directly in equity, in which case the deferred tax is also recognised in other comprehensive income or directly in equity.

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

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (o) Related parties

A related party is a person or entity that is related to the Group.

- (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 Company or of a parent of the Company.
  
- (B) An entity is related to the Group if any of the following conditions applies:
  - (i) The entity and the Company 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. If the Group is itself such a plan, the sponsoring employers are also 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).



### 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

#### **(p) Impairment of assets**

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets except receivables to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

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

#### **(q) Provisions and contingent liabilities**

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a present 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 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 is remote.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (r) Events after the reporting period

Events after the reporting period that provide additional information about the Group's position at the end of the reporting period or those that indicate the going concern assumption is not appropriate are adjusting events and are reflected in the financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the financial statements when material.

## 4. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: foreign currency risk, credit risk, liquidity risk and interest rate risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

### (a) Foreign currency risk

The Group has minimal exposure to foreign currency risk as most of its business transactions, assets and liabilities are principally denominated in Hong Kong dollars and Renminbi ("RMB"). The Group currently does not have a foreign currency hedging policy in respect of foreign currency transactions, assets and liabilities. The Group will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

At 31 December 2013, if the Hong Kong dollar had weakened 5 per cent against the RMB with all other variables held constant, consolidated loss after tax for the year would have been HK\$706,000 higher (2012: HK\$82,000 lower), arising mainly as a result of the foreign exchange losses on trade and other receivables (2012: trade and other payables) denominated in RMB. If the Hong Kong dollar had strengthened 5 per cent against the RMB with all other variables held constant, consolidated loss after tax for the year would have been HK\$706,000 lower (2012: HK\$82,000 higher), arising mainly as a result of the foreign exchange gains on trade and other receivables (2012: trade and other payables) denominated in RMB.

### (b) Credit risk

The carrying amount of bank and cash balances and trade and other receivables included in the consolidated statement of financial position represents the Group's maximum exposure to credit risk in relation to the Group's financial assets.

The Group has no significant concentrations of credit risk, with exposure spread over a number of counterparties and customers.

The credit quality of the counterparties in respect of trade and other receivables is assessed by taking into account their financial position, credit history and other factors. Given the constant repayment history, the directors are of the opinion that the risk of default by these counterparties is low.

The credit risk on bank and cash balances is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.



#### 4. FINANCIAL RISK MANAGEMENT (Continued)

##### (c) Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of borrowings and ensures compliance with loan covenants.

The maturity analysis of the Group's financial liabilities is as follows and the amounts disclosed in the table are the contractual undiscounted cash flows:

	<b>Less than 1 year or on demand</b>	<b>Between 1 and 2 years</b>	<b>Between 2 and 5 years</b>
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>At 31 December 2013</b>			
Finance lease payables	<b>1,046</b>	<b>1,046</b>	<b>436</b>
Other payables and accrued expenses	<b>15,637</b>	–	–
Trade payables	<b>1,319</b>	–	–
At 31 December 2012			
Finance lease payables	1,046	1,046	1,483
Other payables and accrued expenses	8,376	–	–
Trade payables	1,148	–	–

##### (d) Interest rate risk

The Group's bank deposits and financial lease payables bear interests at fixed interest rates and therefore are subject to fair value interest rate risks.

Except as stated above, the Group has no other significant interest-bearing assets and liabilities. The Group's operating cash flows are substantially independent of changes in market interest rates.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 4. FINANCIAL RISK MANAGEMENT *(Continued)*

### (e) Categories of financial instruments at 31 December

	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
<b>Financial assets:</b>		
Loans and receivables		
Trade and other receivables	35,767	27,924
Bank and cash balances	103,213	131,108
	<b>138,980</b>	159,032
<b>Financial liabilities:</b>		
Financial liabilities at amortised cost		
Trade and other payables	16,956	9,524

### (f) Fair values

The carrying amounts of the Group's financial assets and financial liabilities as reflected in the consolidated statement of financial position approximate their respective fair values.

## 5. KEY ESTIMATES

### Key sources of estimation uncertainty

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

#### (a) *Property, plant and equipment and depreciation*

The Group determines the estimated useful lives and related depreciation charges for the Group's property, plant and equipment. This estimation is based on the historical experience of the actual useful lives of property, plant and equipment of similar nature and functions. The Group will revise the depreciation charge where useful lives are different to those previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned.



## 5. KEY ESTIMATES *(Continued)*

### **Key sources of estimation uncertainty** *(Continued)*

(b) *Intangible assets*

The Group determines the estimated useful lives and related amortisation for the Group's intangible assets. This estimation is based on the contractual terms of the intangible assets. The Group will revise the amortisation charge where useful lives are different to those previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned.

(c) *Impairment loss for bad and doubtful debts*

The Group makes impairment loss for bad and doubtful debts based on assessments of the recoverability of trade and other receivables, including the current creditworthiness and the past collection history of each debtor. Impairments arise where events or changes in circumstances indicate that the balances may not be collectible. The identification of bad and doubtful debts requires the use of judgement and estimates. Where the actual result is different from the original estimate, such difference will impact the carrying value of the trade and other receivables and doubtful debt expenses in the year in which such estimate has been changed. If the financial conditions of the debtors were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required.

(d) *Impairment of property, plant and equipment and intangible assets*

Determining whether ATM plant and machinery and customer contracts (collectively referred to as the "ATM cash-generating units") are impaired requires an estimation of the recoverable amount of the ATM cash-generating units to which these assets have been allocated. The fair value less costs of disposal calculation requires the Group to estimate the future cash flows expected to arise from the ATM cash-generating units and a suitable discount rate in order to calculate the present value. In arriving at the future cash flows of the ATM cash-generating units, the directors have to make reasonable estimates and assumptions of the future deployment of the ATMs based on existing and future customers contracts and business operational plan.

The carrying amounts of the ATM plant and machinery and customer contracts at the end of the reporting period were approximately HK\$2,705,000 and HK\$5,884,000 respectively (2012: HK\$10,846,000 and HK\$9,395,000) after impairment losses of approximately HK\$539,000 and HK\$1,344,000 respectively were recognised during the year ended 31 December 2013 (2012: HK\$590,000 and HK\$1,364,000). Details of the impairment losses calculation are provided in notes 16 and 17 to the consolidated financial statements.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 5. KEY ESTIMATES (Continued)

### Key sources of estimation uncertainty (Continued)

(e) *Income taxes*

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

## 6. TURNOVER

The Group's turnover is as follows:

	<b>2013</b> <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Provision of ATM services	<b>9,561</b>	12,463

## 7. OTHER INCOME AND GAINS

	<b>2013</b> <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Interest income	<b>2,271</b>	4,907
Others	<b>3</b>	–
	<b>2,274</b>	4,907

## 8. FINANCE COSTS

	<b>2013</b> <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Finance lease charges	<b>170</b>	228
Interest expenses on bank overdrafts	<b>–</b>	46
	<b>170</b>	274



## 9. INCOME TAX CREDIT

	<b>2013</b>	2012
	<b>HK\$'000</b>	HK\$'000
<b>Deferred tax</b>		
Origination and reversal of temporary differences ( <i>note 24</i> )	<b>616</b>	665

No provision for Hong Kong Profits Tax has been made for the years ended 31 December 2013 and 2012 as the Group, except for those subsidiaries in the People's Republic of China (the "PRC"), did not generate any assessable profits arising in Hong Kong during the years.

No provision for the PRC Corporate Income Tax has been made for the years ended 31 December 2013 and 2012 since the subsidiaries in the PRC have either no assessable profits or sufficient tax losses brought forward to set off against assessable profits for the years.

The PRC Corporate Income Tax rate for the subsidiaries in the PRC is 25% (2012: 25%).



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 9. INCOME TAX CREDIT (Continued)

The reconciliation between the income tax credit and the product of loss before tax multiplied by the Hong Kong Profits Tax rate is as follows:

	2013 HK\$'000	2012 HK\$'000
Loss before tax	(44,242)	(41,068)
Tax at the income tax rate of 16.5%	(7,300)	(6,776)
Tax effect of expenses that are not deductible	6,424	5,692
Tax effect of income that is not taxable	(106)	(269)
Tax effect of temporary differences not recognised	(1,032)	(766)
Tax effect of tax losses not recognised	2,458	1,890
Tax effect of utilisation of tax loss previously not recognised	–	(82)
Effect of different tax rates of subsidiaries operating in other jurisdiction	(1,060)	(354)
Income tax credit	(616)	(665)

## 10. LOSS FOR THE YEAR ATTRIBUTABLE TO THE OWNERS OF THE COMPANY

The Group's loss for the year attributable to the owners of the Company is stated after charging the following:

	2013 HK\$'000	2012 HK\$'000
Amortisation of intangible assets	2,385	2,664
Auditor's remuneration	1,026	1,008
Depreciation	7,787	8,575
Impairment losses on other receivables	–	1,535
Loss on disposals of property, plant and equipment	2	–
Net foreign exchange losses	83	1
Operating lease charges in respect of land and buildings and ATM deployment	7,745	5,693
Property, plant and equipment written off	2,388	3
Staff costs including directors' emoluments		
Salaries and other benefits	15,872	15,276
Retirement benefit scheme contributions	1,677	859
	17,549	16,135



## 11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

The emoluments of each director were as follows:

	Fees HK\$'000	Salaries and allowances HK\$'000	Retirement benefit scheme contributions HK\$'000	Total HK\$'000
<b>Executive directors</b>				
Mao Zhenhua (Note a)	–	550	11	561
Shentu Jun (Note b)	–	550	11	561
Song Jing Sheng (Note c)	–	170	4	174
Sze Wai, Marco	–	2,700	15	2,715
Tan Shu Jiang	–	713	8	721
<b>Independent non-executive directors</b>				
Chan Ming Sun, Jonathan (Note d)	92	–	–	92
Chong Yiu Kan, Sherman	120	–	–	120
Lai Yip Wing (Note b)	92	–	–	92
Mao Zhenhua (Note a)	28	–	–	28
Wong Po Yan (Note c)	28	–	–	28
<b>Total for 2013</b>	<b>360</b>	<b>4,683</b>	<b>49</b>	<b>5,092</b>

	Fees HK\$'000	Salaries and allowances HK\$'000	Retirement benefit scheme contributions HK\$'000	Total HK\$'000
<b>Executive directors</b>				
Song Jing Sheng	–	720	14	734
Sze Wai, Marco	–	2,700	14	2,714
Tan Shu Jiang	–	720	14	734
<b>Independent non-executive directors</b>				
Chong Yiu Kan, Sherman	120	–	–	120
Mao Zhenhua	120	–	–	120
Wong Po Yan	120	–	–	120
<b>Total for 2012</b>	<b>360</b>	<b>4,140</b>	<b>42</b>	<b>4,542</b>

Notes: (a) Redesignated from independent non-executive director to an executive director with effect from 25 March 2013 and resigned on 28 February 2014.

(b) Appointed on 25 March 2013 and resigned on 30 January 2014.

(c) Resigned on 25 March 2013.

(d) Appointed on 25 March 2013 and resigned on 28 February 2014.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 11. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

The five highest paid individuals in the Group during the year included two (2012: three) directors whose emoluments are reflected in the analysis presented above. The emoluments of the remaining three (2012: two) individuals are set out below:

	<b>2013</b>	2012
	<b>HK\$'000</b>	HK\$'000
Salaries and other benefits	<b>2,520</b>	2,160
Retirement benefit scheme contributions	<b>41</b>	28
	<b>2,561</b>	2,188

The emoluments of the remaining three (2012: two) individuals (including a senior management of the Company) fell within the following bands:

	<b>Number of individuals</b>	
	<b>2013</b>	2012
Nil – HK\$1,000,000	<b>2</b>	1
HK\$1,000,001 – HK\$1,500,000	<b>1</b>	1

During the year, no emoluments were paid by the Group to any of the directors or the five highest paid individuals as an inducement to join or upon joining the Group. The Group paid no compensation for loss of office to the directors or the five highest paid individuals for the years ended 31 December 2013 and 2012. No director had waived or agreed to waive any emoluments during the years ended 31 December 2013 and 2012.

## 12. DIVIDENDS

The directors do not recommend the payment of any dividend for the years ended 31 December 2013 and 2012.



### 13. LOSS PER SHARE

#### (a) Basic loss per share

The calculation of basic loss per share attributable to the owners of the Company is based on the loss for the year attributable to the owners of the Company of approximately HK\$43,626,000 (2012: HK\$40,403,000) and the weighted average number of ordinary shares of approximately 2,138,085,000 (2012: 2,138,085,000) in issue during the year.

#### (b) Diluted loss per share

The effects of all potential ordinary shares are anti-dilutive for the years ended 31 December 2013 and 2012.

### 14. SEGMENT INFORMATION

The Group operates one operating segment, which is provision of ATM services. No separate segment information is prepared according to HKFRS 8 "Operating Segments".

All operating assets and operations of the Group during the years ended 31 December 2013 and 2012 were substantially located and carried out in the PRC.

Management has determined the operating segments based on the reports reviewed by the Group's Chief Executive Officer ("CEO") (being the chief operating decision maker) to make strategic decisions about resources allocation and performance assessment.

The Group's CEO assesses the performance of the operating segment based on a measure of earnings before interest, tax, depreciation and amortisation. This measurement basis of segment results excludes the effects of non-recurring expenditures from the operating segment such as loss on written off of property, plant and equipment.

Bank and cash balances held by the Group are not considered to be segment assets but rather are centrally managed by the Chief Finance Officer in Hong Kong.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 14. SEGMENT INFORMATION (Continued)

### (a) Geographical information

	Revenue		Non-current assets	
	2013 HK\$'000	2012 HK\$'000	2013 HK\$'000	2012 HK\$'000
Hong Kong	–	–	3,449	5,133
The PRC except Hong Kong	9,561	12,463	8,911	20,753
	<b>9,561</b>	12,463	<b>12,360</b>	25,886

In presenting the geographical information, revenue is based on the locations of the customers.

### (b) Revenue from major customers

	2013 HK\$'000	2012 HK\$'000
ATM services		
Customer a	4,081	4,943
Customer b	3,903	5,058
Customer c	1,090	1,782
Customer d	–	669

## 15. OTHER COMPREHENSIVE INCOME

Tax effects relating to each component of other comprehensive income for the year:

	2013			2012		
	Amount before tax HK\$'000	Tax HK\$'000	Amount after tax HK\$'000	Amount before tax HK\$'000	Tax HK\$'000	Amount after tax HK\$'000
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong	4,377	–	4,377	1,334	–	1,334
Other comprehensive income	4,377	–	4,377	1,334	–	1,334



## 16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Furniture, fixtures and office equipment <i>HK\$'000</i>	Motor vehicles <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>Cost</b>					
At 1 January 2012	4,060	83,794	6,980	12,697	107,531
Exchange adjustments	15	719	32	38	804
Additions	79	854	116	–	1,049
Written off	(141)	–	–	–	(141)
At 31 December 2012	4,013	85,367	7,128	12,735	109,243
At 1 January 2013	<b>4,013</b>	<b>85,367</b>	<b>7,128</b>	<b>12,735</b>	<b>109,243</b>
Exchange adjustments	<b>57</b>	<b>2,362</b>	<b>117</b>	<b>139</b>	<b>2,675</b>
Additions	<b>180</b>	<b>25</b>	<b>10</b>	–	<b>215</b>
Disposals	–	<b>(4,198)</b>	–	–	<b>(4,198)</b>
Written off	<b>(149)</b>	<b>(16,830)</b>	–	–	<b>(16,979)</b>
At 31 December 2013	<b>4,101</b>	<b>66,726</b>	<b>7,255</b>	<b>12,874</b>	<b>90,956</b>
<b>Accumulated depreciation and impairment:</b>					
At 1 January 2012	3,198	67,606	6,009	6,316	83,129
Exchange adjustments	13	517	(40)	106	596
Charge for the year	435	5,808	395	1,937	8,575
Impairment losses	–	590	–	–	590
Written off	(138)	–	–	–	(138)
At 31 December 2012	3,508	74,521	6,364	8,359	92,752
At 1 January 2013	<b>3,508</b>	<b>74,521</b>	<b>6,364</b>	<b>8,359</b>	<b>92,752</b>
Exchange adjustments	<b>51</b>	<b>1,594</b>	<b>121</b>	<b>120</b>	<b>1,886</b>
Charge for the year	<b>389</b>	<b>5,706</b>	<b>235</b>	<b>1,457</b>	<b>7,787</b>
Impairment losses	–	<b>539</b>	–	–	<b>539</b>
Disposals	–	<b>(3,893)</b>	–	–	<b>(3,893)</b>
Written off	<b>(145)</b>	<b>(14,446)</b>	–	–	<b>(14,591)</b>
At 31 December 2013	<b>3,803</b>	<b>64,021</b>	<b>6,720</b>	<b>9,936</b>	<b>84,480</b>
<b>Carrying amount:</b>					
At 31 December 2013	<b>298</b>	<b>2,705</b>	<b>535</b>	<b>2,938</b>	<b>6,476</b>
At 31 December 2012	505	10,846	764	4,376	16,491



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 16. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The Group carried out reviews of the recoverable amount of its ATM machineries in plant and machinery in 2013 and 2012 which formed part of the ATM cash-generating units, having regard to the market conditions and the business strategy of the Group's ATM business. As the Group concentrated its business expansion strategy on strengthening cooperation with their existing customers and carefully reviewed the location selection strategy of ATM deployment, this led to the recognition of impairment losses of approximately HK\$539,000 (2012: HK\$590,000), that has been recognised in profit or loss.

The recoverable amount of the ATM cash-generating units has been determined on the basis of the fair value less costs of disposal which uses cash flow projections based on financial budgets approved by the directors covering a five-year period. The growth rate is based on expected inflation growth rate of the geographical area in which the business of the ATM cash-generating units are operated. The cash flows beyond that five-year period have been extrapolated using a steady 2.6% (2012: 2.5%) per annum growth rate which is the expected inflation growth rate for the ATM business. Budgeted gross margin and turnover are based on past practices and expectations of the ATM market development. The pre-tax discount rate used in measuring the fair value less costs of disposal is 16% (2012: 15%). 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 unit to exceed the aggregate recoverable amount of the ATM cash-generating units.

As at 31 December 2013, the carrying amount of motor vehicles held by the Group under finance leases amounted to HK\$2,679,000 (2012: HK\$3,827,000).



## 17. INTANGIBLE ASSETS

	<b>Customer contracts</b>
	<i>HK\$'000</i>
<b>Cost:</b>	
At 1 January 2012	55,530
Exchange adjustments	432
At 31 December 2012 and 1 January 2013	55,962
Exchange adjustments	1,589
<b>At 31 December 2013</b>	<b>57,551</b>
<b>Accumulated amortisation and impairment:</b>	
At 1 January 2012	42,166
Amortisation for the year	2,664
Impairment losses	1,364
Exchange adjustments	373
At 31 December 2012 and 1 January 2013	46,567
Amortisation for the year	2,385
Impairment losses	1,344
Exchange adjustments	1,371
<b>At 31 December 2013</b>	<b>51,667</b>
<b>Carrying amount:</b>	
<b>At 31 December 2013</b>	<b>5,884</b>
At 31 December 2012	9,395



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 17. INTANGIBLE ASSETS (Continued)

The Group's intangible assets represent the customer contracts entered into by Loten Technology Co., Limited and Beijing Sun Leader Technology Co., Limited. The average remaining amortisation period of the customer contracts is 3 years (2012: 4 years).

The Group carried out reviews of the recoverable amount of its intangible assets in 2013 and 2012 which formed part of the ATM's cash-generating units, having regard to the market conditions and the business strategy of the Group's ATM business. As the Group concentrated its business expansion strategy on strengthening cooperation with their existing customers and carefully reviewed the location selection strategy of ATM deployment, this led to the recognition of impairment losses of approximately HK\$1,344,000 (2012: HK\$1,364,000) for customer contracts that have been recognised in profit or loss.

The recoverable amount of the ATM's cash-generating units has been determined on the basis of the fair value less costs of disposal which uses cash flow projections based on financial budgets approved by the directors covering a five-year period. The growth rate is based on expected inflation growth rate of the geographical area in which the business of the ATM's cash-generating units are operated. The cash flows beyond that five-year period have been extrapolated using a steady 2.6% (2012: 2.5%) per annum growth rate which is the expected inflation growth rate for the ATM business. Budgeted gross margin and turnover are based on past practices and expectations of the ATM market development. The pre-tax discount rate used in measuring the fair value less costs of disposal is 16% (2012: 15%). 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 unit to exceed the aggregate recoverable amount of the ATM's cash-generating units.

## 18. TRADE AND OTHER RECEIVABLES

	Note	2013 HK\$'000	2012 HK\$'000
Trade receivables	(a)	955	2,094
Prepayments, deposits and other receivables		35,765	26,517
	(b)	36,720	28,611



## 18. TRADE AND OTHER RECEIVABLES (Continued)

Note:

- (a) The Group's trading terms with all customers are mainly on credit. The credit period is generally 90 days. In addition, for certain customers with long-established relationships and good past repayment histories, a longer credit period may be granted in order to maintain good relationship. Trade receivables with balances that are more than 6 months overdue are requested to settle all outstanding balances before any further credit is granted. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the directors.

The aging analysis of trade receivables, based on invoice dates, is as follows:

	<b>2013</b> <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Current	<b>537</b>	722
1 to 3 months	<b>185</b>	416
3 to 12 months	<b>167</b>	942
Over 1 year	<b>66</b>	14
	<b>955</b>	2,094

As at 31 December 2013 and 2012, no allowance was made for estimated irrecoverable trade receivables.

As at 31 December 2013, trade receivables of approximately HK\$233,000 (2012: HK\$956,000) were past due but not impaired. These related to a few independent customers for whom there is no recent history of default. The aging analysis of these trade receivables is as follows:

	<b>2013</b> <i>HK\$'000</i>	2012 <i>HK\$'000</i>
3 to 12 months	<b>167</b>	942
Over 1 year	<b>66</b>	14
	<b>233</b>	956

- (b) Included in trade and other receivables are the following amounts denominated in a currency other than the presentation currency:

	<b>2013</b> <i>'000</i>	2012 <i>'000</i>
RMB	<b>12,775</b>	2,592



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 19. BANK AND CASH BALANCES

As at 31 December 2013, the bank and cash balances of the Group denominated in RMB amounted to approximately of HK\$103,004,000 (2012: HK\$129,278,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

## 20. TRADE AND OTHER PAYABLES

	Note	2013 HK\$'000	2012 HK\$'000
Trade payables	(a)	1,319	1,148
Other payables and accrued expenses	(b)	15,637	8,376
		<b>16,956</b>	9,524

Note:

(a) The aging analysis of trade payables based on services rendered is as follows:

	2013 HK\$'000	2012 HK\$'000
1 to 3 months	73	454
3 to 12 months	656	621
Over 1 year	590	73
	<b>1,319</b>	1,148

The carrying accounts of the Group's trade payables as at 31 December 2013 and 2012 are denominated in RMB.

(b) Included in the other payables and accrued expenses is an amount of HK\$1,500,000 (2012: Nil) due to a third party, Mr. Law Fei Shing. This amount is unsecured, interest-free and repayable on or before 30 January 2014. On 30 January 2014, Mr. Law was appointed as a non-executive director of the Company.



## 21. FINANCE LEASE PAYABLES

	Minimum lease payments		Present value of minimum lease payments	
	2013 HK\$'000	2012 HK\$'000	2013 HK\$'000	2012 HK\$'000
Within one year	1,046	1,046	934	876
In the second to fifth years, inclusive	1,482	2,529	1,421	2,355
	<b>2,528</b>	3,575	<b>2,355</b>	3,231
Less: Future finance charges	(173)	(344)	N/A	N/A
Present value of lease obligations	<b>2,355</b>	3,231	<b>2,355</b>	3,231
Less: Amount due for settlement within 12 months (shown under current liabilities)			(934)	(876)
Amount due for settlement after 12 months			<b>1,421</b>	2,355

It is the Group's policy to lease its motor vehicles under finance leases. The lease term is 5 years. As at 31 December 2013, the effective borrowing rate was 6.26% (2012: 6.26%). Interest rate is fixed at the contract date and thus exposes the Group to fair value interest rate risk. The lease is on fixed repayment basis and no arrangements have been entered into for contingent rental payments. At the end of lease term, the Group has the option to purchase the motor vehicles at nominal prices.

All finance lease payables are denominated in Hong Kong dollars.

The Group's finance lease payables are secured by the lessor's title to the leased assets.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 22. EMPLOYEE RETIREMENT BENEFITS

The Company and its Hong Kong subsidiaries operate Mandatory Provident Fund Schemes (the “MPF schemes”) under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF schemes are defined contribution retirement schemes administered by independent trustees. Under the MPF schemes, the employers and employees are each required to make contributions to the MPF schemes at 5% of the employees’ relevant income, subject to a cap of monthly relevant income of HK\$25,000 with effect from 1 June 2012 (before 1 June 2012: HK\$20,000). Contributions to the MPF schemes vest immediately.

The retirement benefits costs under the MPF schemes charged to the profit or loss during the year amounted to HK\$184,000 (2012: HK\$179,000).

The subsidiaries of the Group in the PRC other than Hong Kong participate in pension schemes organised by the respective municipal governments whereby they are required to pay annual contributions at the rates ranging from 15% to 33% (2012: 15% to 33%) of the standard wages determined by the relevant authorities in the PRC.

Under the above schemes, retirement benefits of existing and retired employees are payable by the relevant PRC scheme administrators and the Group has no further obligations beyond the annual contributions.

The aggregate employers’ contributions by the Group under the PRC pension schemes during the year amounted to HK\$1,493,000 (2012: HK\$680,000).

The Group does not operate any other schemes for retirement benefits provided to the Group’s employees.

## 23. EQUITY SETTLED SHARE-BASED TRANSACTIONS

Prior to 23 May 2002, the Company operated an option scheme whereby the Board of Directors could, at their absolute discretion, grant options to employees and executive directors of the Company and any of its subsidiaries to subscribe for shares in the Company (the “Old Scheme”). On 23 May 2002, the Old Scheme was terminated and a new share option scheme (the “New Scheme”) was adopted for a period of ten years, whereby the Board of Directors may, at their absolute discretion, grant options to any eligible employees, non-executive directors, any suppliers and customers of the Company or any of its subsidiaries or any invested entity to subscribe for shares in the Company.



## 23. EQUITY SETTLED SHARE-BASED TRANSACTIONS *(Continued)*

Pursuant to a resolution of an annual general meeting held on 30 June 2006, the total number of shares in respect of which options may be granted under the New Scheme and any other operative share option schemes of the Company is not permitted to exceed 10% of the aggregate nominal amount of the issued shares of the Company as at 30 June 2006. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK\$5 million must be approved in advance by the Company's shareholders.

The offer for a grant of share options of the New Scheme may be accepted within 28 days from the date of the offer, upon payment of a nominal consideration of HK\$1 in total by the grantee. The exercise period of the share options granted is determinable by the directors and in any event not later than 10 years from the date of grant of share options subject to the provisions for early termination thereof.

For options granted before 1 September 2001, the exercise price of options was the higher of the nominal value of the shares and 80% of the average closing prices of the shares of the Company on the Stock Exchange for the five trading days immediately preceding the date of offer of the options. For options granted after 1 September 2001, the exercise price of the options shall not be lower than the highest of (i) the nominal value of the shares; (ii) the closing price of the shares on the Stock Exchange's daily quotations sheet on the date of offer of the options, which must be a trading day; and (iii) the average closing price of the shares on the Stock Exchange for the five trading days immediately preceding the date of offer of the options.

As at 31 December 2013, there were 34,700,000 share options granted which remained outstanding under the New Scheme. The exercise in full of the remaining share options would, under the present capital structure of the Company, result in the issue of 34,700,000 additional ordinary shares of the Company and additional share capital of HK\$3,470,000 and share premium of HK\$5,496,000 (before share issue expenses).

Share options do not confer rights to the holders to dividends or to vote at shareholders' meetings.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 23. EQUITY SETTLED SHARE-BASED TRANSACTIONS (Continued)

The following share options were outstanding under the share option schemes during the year:

Grantee	Date granted	Exercisable period	Note	Exercise price of options (note a) HK\$	Number of share options			Outstanding at 31.12.2013
					Outstanding at 1.1.2013	Exercised during the year	Lapsed during the year	
<b>New Scheme</b>								
<b>Directors</b>								
Mao Zhenhua (note f)	31 Oct 2006	1 May 2007 – 30 Oct 2016	(d)	0.250	1,000,000	–	–	1,000,000
	24 Jun 2009	24 Dec 2009 – 23 Jun 2019	(e)	0.270	1,500,000	–	–	1,500,000
Song Jing Sheng (note g)	31 Oct 2006	1 May 2007 – 30 Oct 2016	(d)	0.250	2,000,000	–	(2,000,000)	–
	24 Jun 2009	24 Dec 2009 – 23 Jun 2019	(e)	0.270	1,500,000	–	(1,500,000)	–
Sze Wai, Marco	31 Oct 2006	1 May 2007 – 30 Oct 2016	(d)	0.250	1,000,000	–	–	1,000,000
	24 Jun 2009	24 Dec 2009 – 23 Jun 2019	(e)	0.270	1,500,000	–	–	1,500,000
Tan Shu Jiang	24 Jun 2009	24 Dec 2009 – 23 Jun 2019	(e)	0.270	4,000,000	–	–	4,000,000
<b>Independent non-executive directors</b>								
Chong Yiu Kan, Sherman	31 Oct 2006	1 May 2007 – 30 Oct 2016	(d)	0.250	500,000	–	–	500,000
	24 Jun 2009	24 Dec 2009 – 23 Jun 2019	(e)	0.270	1,500,000	–	–	1,500,000
Wong Po Yan (note g)	31 Oct 2006	1 May 2007 – 30 Oct 2016	(d)	0.250	1,000,000	–	(1,000,000)	–
	24 Jun 2009	24 Dec 2009 – 23 Jun 2019	(e)	0.270	1,500,000	–	(1,500,000)	–
<b>Employees</b>								
	20 Mar 2006	20 Mar 2006 – 19 Mar 2016	(b)	0.122	2,000,000	–	–	2,000,000
	04 Oct 2006	4 Apr 2007 – 3 Oct 2016	(c)	0.213	1,000,000	–	–	1,000,000
	24 Jun 2009	24 Dec 2009 – 23 Jun 2019	(e)	0.270	20,700,000	–	–	20,700,000
					40,700,000	–	(6,000,000)	34,700,000



## 23. EQUITY SETTLED SHARE-BASED TRANSACTIONS (Continued)

Notes:

- (a) The exercise price of the share options is subject to adjustment in the case of a rights or bonus issue, or other similar changes in the Company's share capital.
- (b) All of these options have duration of 10 years from the date of grant and the options can be exercised from the date of grant.
- (c) All of these options have duration of 10 years from the date of grant, provided that the options may not be exercised prior to the date of 4 April 2007 and that the options may not be exercised in respect of more than 50% prior to 4 October 2007 respectively.
- (d) All of these options have duration of 10 years from the date of grant, provided that the options may not be exercised prior to the date of 1 May 2007 and that the options may not be exercised in respect of more than 50% prior to 1 November 2007 respectively.
- (e) All of these options have duration of 10 years from the date of grant, provided that the options can only be exercised from the date of 24 December 2009.
- (f) Mr. Mao Zhenhua was redesignated from an independent non-executive director to an executive director with effect from 25 March 2013 and resigned on 28 February 2014.
- (g) Mr. Song Jing Sheng and Mr. Wong Po Yan resigned on 25 March 2013.

The number and weighted average exercise price of the share options are as follows:

	2013		2012	
	Number of share options	Weighted average exercise price HK\$	Number of share options	Weighted average exercise price HK\$
Outstanding at the beginning of the year	40,700,000	0.259	41,100,000	0.259
Lapsed during the year	(6,000,000)	0.26	(400,000)	0.27
Outstanding at the end of the year	34,700,000	0.258	40,700,000	0.259
Exercisable at the end of the year	34,700,000	0.258	40,700,000	0.259

There were no share options granted and exercised during the year (2012: Nil). The options outstanding at the end of the year have a weighted average remaining contractual life of 6.02 years (2012: 5.90 years) and the exercise prices range from HK\$0.122 to HK\$0.270 (2012: HK\$0.122 to HK\$0.270).

There was no share-based compensation costs recognised during the year (2012: Nil).



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 24. DEFERRED TAX

The following are the deferred tax liabilities recognised by the Group.

	<b>Intangible assets</b> <i>HK\$'000</i>
At 1 January 2012	1,900
Credit to profit or loss for the year ( <i>note 9</i> )	(665)
Exchange adjustments	(3)
At 31 December 2012	1,232
At 1 January 2013	<b>1,232</b>
Credit to profit or loss for the year ( <i>note 9</i> )	<b>(616)</b>
Exchange adjustments	<b>(3)</b>
At 31 December 2013	<b>613</b>

As at 31 December 2013, the Group has not recognised deferred tax assets in respect of cumulative tax losses and cumulative impairment losses of its ATM plant and machinery included in property, plant and equipment of approximately HK\$50,123,000 and HK\$17,779,000 respectively (2012: HK\$45,174,000 and HK\$17,233,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The cumulative tax losses of which approximately HK\$43,316,000 (2012: HK\$38,367,000) will expire within 5 years and the remaining cumulative tax losses of approximately HK\$6,807,000 (2012: HK\$6,807,000) do not expire under current tax legislation.



## 25. SHARE CAPITAL

	2013		2012	
	No. of shares '000	Amount HK\$'000	No. of shares '000	Amount HK\$'000
Authorised:				
Ordinary shares of HK\$0.1 each	<b>6,000,000</b>	<b>600,000</b>	3,000,000	300,000
Issued and fully paid:				
At 1 January and at 31 December	<b>2,138,085</b>	<b>213,808</b>	2,138,085	213,808

By a special resolution passed on 27 December 2013, the authorised ordinary share capital of the Company was increased from HK\$300,000,000 to HK\$600,000,000 by the creation of 3,000,000,000 shares of HK\$0.1 each, such new shares ranking pari passu in all respects with the existing shares of the Company.

All the shares issued by the Company rank pari passu and do not carry pre-emptive right.

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

The capital structure of the Group consists of equity attributable to equity holders of the Company, comprising issued share capital, share premium and reserves.

The directors of the Company review the capital structure on an annual basis. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, 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.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 26. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	<b>2013</b>	2012
	<b>HK\$'000</b>	HK\$'000
Property, plant and equipment	<b>708</b>	1,242
Investments in subsidiaries	–	–
Amounts due from subsidiaries	<b>313,049</b>	337,996
Impairment losses on amounts due from subsidiaries	<b>(273,568)</b>	(262,263)
Other receivables	<b>35,103</b>	25,936
Bank and cash balances	<b>42</b>	1,728
Other payables	<b>(10,766)</b>	(4,740)
Net assets	<b>64,568</b>	99,899
Share capital	<b>213,808</b>	213,808
Reserves	<b>(149,240)</b>	(113,909)
Total equity	<b>64,568</b>	99,899



## 27. RESERVES

### (a) Group

The amounts of the Group's reserves and the movements therein are presented in the consolidated statement of profit or loss and other comprehensive income and consolidated statement of changes in equity.

### (b) Company

	Share premium <i>HK\$'000</i>	Share option reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total equity <i>HK\$'000</i>
At 1 January 2012	489,081	7,578	(580,334)	(83,675)
Total comprehensive income for the year	–	–	(30,234)	(30,234)
Share options lapsed	–	(80)	80	–
Changes in equity for the year	–	(80)	(30,154)	(30,234)
At 31 December 2012	489,081	7,498	(610,488)	(113,909)
At 1 January 2013	<b>489,081</b>	<b>7,498</b>	<b>(610,488)</b>	<b>(113,909)</b>
Total comprehensive income for the year	–	–	<b>(35,331)</b>	<b>(35,331)</b>
Share options lapsed	–	<b>(1,065)</b>	<b>1,065</b>	–
Changes in equity for the year	–	<b>(1,065)</b>	<b>(34,266)</b>	<b>(35,331)</b>
At 31 December 2013	<b>489,081</b>	<b>6,433</b>	<b>(644,754)</b>	<b>(149,240)</b>

### (c) Nature and purposes of reserves

#### (i) Share premium

Under the Companies Act 1981 of Bermuda (as amended), the funds in the share premium account of the Company are distributable in the form of fully paid bonus shares.

#### (ii) Share option reserve

The share option reserve represents the fair value of the actual or estimated number of unexercised share options granted to executive directors, employees and non-executive directors of the Company recognised in accordance with the accounting policy adopted for equity-settled share-based payments in note 3(m) to the consolidated financial statements.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 27. RESERVES (Continued)

### (c) Nature and purposes of reserves (Continued)

#### (iii) Translation reserve

The translation reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 3(c) to the consolidated financial statements.

## 28. COMMITMENTS

### (a) Lease commitments

As at 31 December 2013, the total future minimum lease payments under operating leases are payable as follows:

	2013 HK\$'000	2012 HK\$'000
Within one year	8,492	6,507
In the second to fifth years inclusive	1,488	3,877
	<b>9,980</b>	10,384

Operating lease payments represent rentals payable by the Group for its offices and ATM deployment. Leases are negotiated for a range of one to five years and rentals are fixed over the lease terms and do not include contingent rentals.

### (b) Capital commitments

As at 31 December 2013 and 2012, the Group did not have any significant capital commitments.



## 29. CONTINGENT LIABILITIES

As at 31 December 2013 and 2012, the Group did not have any significant contingent liabilities.

## 30. MATERIAL RELATED PARTY TRANSACTIONS

### Compensation of key management personnel of the Group:

	2013 <i>HK\$'000</i>	2012 <i>HK\$'000</i>
Salaries and other benefits	6,483	4,200
Retirement benefit scheme contributions	79	55
	<b>6,562</b>	4,255



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

## 31. SUBSIDIARIES

Details of the Company's subsidiaries as at 31 December 2013 are as follows:

Name of subsidiaries	Place of incorporation/ establishment and operation	Attributable ownership interest percentage		Issued and paid up/ registered capital	Principal activities
		Direct	Indirect		
Win Perfect Limited	British Virgin Islands ("BVI")	100	–	US\$11,000	Investment holding
Maxing Investment Limited	BVI	100	–	US\$1	Dormant
Concept Wonderful Limited	BVI	100	–	US\$1	Investment holding
Stepping Stones Limited	BVI	–	100	US\$11,000	Investment holding
Kayford Investment Limited	BVI	–	100	US\$1	Investment holding
Emperor Dragon International Limited	BVI	–	100	US\$500	Investment holding
China Star Group (Hong Kong) Corporation Limited	Hong Kong	–	100	HK\$100,000	Inactive
Fortune Jet International Limited	Hong Kong	–	100	HK\$10,000,000	Investment holding
Smart Goal Development Limited	Hong Kong	–	100	HK\$1	Inactive
Beauty China Investment Company Limited	Hong Kong	–	100	HK\$1	Dormant
Start Technology (Beijing) Co., Ltd. (note a)	PRC	–	100	RMB10,000,000	Dormant
Beijing Sun Leader Technology Co., Ltd. (note a)	PRC	–	100	RMB60,000,000	Provision of ATMs services
Loten Technology Co., Ltd. (note a)	PRC	–	100	RMB50,000,000	Inactive
Shenzhen FinTronics Information Services Ltd. (note b)	PRC	–	100	RMB5,000,000	Provision of ATMs services

Notes:

(a) These are wholly foreign-owned companies established in the PRC.

(b) This is a domestic limited liability company established in the PRC.



### 32. EVENTS AFTER THE REPORTING PERIOD

- (a) On 28 January 2014, 2,000,000,000 subscription shares at HK\$0.1 each have been duly allotted and issued to Leading Value Industrial Limited ("Subscriber"), a company wholly owned by a director, Mr. Sze Wai, Marco. Total proceeds amounted to HK\$200,000,000.
- (b) On 18 February 2014, a subsidiary, Beauty China Investment Company Limited, entered into a non-legally binding Memorandum of Understanding with the Bengbu City Wuhe County Government in relation to the Bengbu City Wuhe County Project (the "Project"). The estimated total investment amount of the Project is expected to be approximately RMB5 billion (equivalent to approximately HK\$6.39 billion). The Project is subject to conditions and may or may not lead to the entering into a formal agreement.

### 33. APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 26 March 2014.



# FIVE YEARS FINANCIAL SUMMARY

For the year ended 31 December 2013

	<b>2013</b> <b>HK\$'000</b>	2012 HK\$'000	2011 HK\$'000	2010 HK\$'000	2009 HK\$'000
<b>Results</b>					
Turnover	<b>9,561</b>	12,463	13,519	12,028	11,876
Loss from ordinary activities before tax	<b>(44,242)</b>	(41,068)	(48,214)	(70,297)	(83,798)
Income tax credit	<b>616</b>	665	1,406	1,306	2,042
Loss from ordinary activities after tax and loss attributable to equity holders	<b>(43,626)</b>	(40,403)	(46,808)	(68,991)	(81,756)
<b>Assets and liabilities</b>					
Property, plant and equipment	<b>6,476</b>	16,491	24,402	30,302	48,430
Intangible assets	<b>5,884</b>	9,395	13,364	20,935	27,442
Pledged bank deposits	–	–	5,000	5,000	5,000
Net current assets	<b>122,043</b>	149,319	173,052	193,096	155,598
Total assets less current liabilities	<b>134,403</b>	175,205	215,818	249,333	236,470
Non-current liabilities	<b>(2,034)</b>	(3,587)	(5,131)	(3,324)	(4,653)
	<b>132,369</b>	171,618	210,687	246,009	231,817
Share capital	<b>213,808</b>	213,808	213,808	213,808	184,328
Reserves	<b>(81,439)</b>	(42,190)	(3,121)	32,201	47,489
	<b>132,369</b>	171,618	210,687	246,009	231,817
Loss per share (cents)					
Basic	<b>(2.04)</b>	(1.89)	(2.19)	(3.45)	(4.44)
Diluted	<b>(2.04)</b>	(1.89)	(2.19)	(3.45)	(4.44)