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BEAUTIFUL CHINA HOLDINGS COMPANY LIMITED

美麗中國控股有限公司

(incorporated in Bermuda with limited liability)

(Stock code: 706)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2015

The Board of Directors of Beautiful China Holdings Company Limited (the “Company”) are pleased to announce the audited consolidated annual results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2015 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2015

	<i>Note</i>	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Turnover	3	22,073	6,013
Cost of sales		<u>(20,524)</u>	<u>–</u>
Gross profit		1,549	6,013
Other income and gains	4	3,983	3,920
Administrative expenses		(62,298)	(58,153)
Other operating expenses		(1,064)	(1,927)
Impairment losses on intangible assets	11	(408)	(1,123)
Impairment losses on property, plant and equipment		(104)	(237)
Loss from changes in fair value less costs to sell of biological assets	12	<u>(1,044)</u>	<u>–</u>
Loss from operations		(59,386)	(51,507)
Finance costs	5	<u>(2,180)</u>	<u>(113)</u>
Loss before tax		(61,566)	(51,620)
Income tax credit	6	<u>65</u>	<u>503</u>
Loss for the year	7	<u>(61,501)</u>	<u>(51,117)</u>
Attributable to:			
Owners of the Company		(61,490)	(51,117)
Non-controlling interests		<u>(11)</u>	<u>–</u>
		<u>(61,501)</u>	<u>(51,117)</u>
Loss per share			
Basic	9(a)	<u>(1.22) cents</u>	<u>(1.22) cents</u>
Diluted	9(b)	<u>(1.22) cents</u>	<u>(1.22) cents</u>

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2015

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Loss for the year	(61,501)	(51,117)
Other comprehensive income for the year, net of tax		
<i>Item that may be reclassified to profit or loss:</i>		
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong	<u>(21,792)</u>	<u>(3,803)</u>
Total comprehensive income for the year	<u>(83,293)</u>	<u>(54,920)</u>
Attributable to:		
Owners of the Company	(83,283)	(54,920)
Non-controlling interests	<u>(10)</u>	<u>—</u>
Total comprehensive income for the year	<u>(83,293)</u>	<u>(54,920)</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2015

	<i>Note</i>	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Non-current assets			
Property, plant and equipment		6,017	3,890
Intangible assets	<i>11</i>	888	2,702
Biological assets	<i>12</i>	160,177	2,182
Prepayments	<i>13</i>	167,252	–
Deposits	<i>14</i>	30,086	211,413
		<u>364,420</u>	<u>220,187</u>
Current assets			
Trade and other receivables	<i>15</i>	17,175	16,025
Bank and cash balances		143,037	217,108
		<u>160,212</u>	<u>233,133</u>
Current liabilities			
Trade and other payables	<i>16</i>	12,417	9,902
Finance lease payables	<i>17</i>	430	991
		<u>12,847</u>	<u>10,893</u>
Net current assets		<u>147,365</u>	<u>222,240</u>
Total assets less current liabilities		511,785	442,427
Non-current liabilities			
Finance lease payables	<i>17</i>	–	430
Convertible bonds	<i>18</i>	14,079	–
Deferred tax liabilities		48	112
		<u>14,127</u>	<u>542</u>
Net assets		<u>497,658</u>	<u>441,885</u>
Capital and reserves			
Share capital		525,108	456,408
Reserves		(27,440)	(14,523)
Equity Attributable to the owners of the Company		<u>497,668</u>	<u>441,885</u>
Non-controlling interests		(10)	–
Total equity		<u>497,658</u>	<u>441,885</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

1. BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (“HKFRSs”) issued by the Hong Kong Institute of Certified Public Accountants (the “HKICPA”). HKFRSs comprise Hong Kong Financial Reporting Standards (“HKFRS”); Hong Kong Accounting Standards (“HKAS”); and Interpretations. These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange and with the disclosure requirements of the Hong Kong Companies Ordinance (Cap. 622).

These consolidated financial statements have been prepared under the historical cost convention, except for biological assets which are measured at fair value less costs to sell.

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

(a) Application of new and revised HKFRSs

In the current year, the Group has adopted all of the new and revised HKFRSs issued by the HKICPA that are relevant to its operations and effective for its accounting year beginning on 1 January 2015.

Amendment to HKFRS 8 (Annual Improvements to HKFRSs 2010–2012 Cycle)

The amendment requires disclosure of the judgements made by management in applying the aggregation criteria to operating segments, and clarifies that reconciliations of the total of the reportable segments’ assets to the entity’s assets are required only if the segment assets are reported regularly. These clarifications had no effect on the Group’s consolidated financial statements.

(b) New and revised HKFRSs in issue but not yet effective

The Group has not early applied new and revised HKFRSs that have been issued but are not yet effective for the financial year beginning on 1 January 2015. The directors anticipate that the new and revised HKFRSs will be adopted in the Group’s consolidated financial statements when they become effective. The Group is in the opinion of assessing, where applicable, the potential effect of all new and revised HKFRSs that will be effective in future periods but is not yet in a position to state whether these new and revised HKFRSs would have a material impact on its results of operations and financial position.

List of new and revised HKFRSs in issue but not yet effective and relevant for the Group's operation

HKFRS 9	Financial Instruments ¹
HKFRS 15	Revenue from Contracts with Customers ¹
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation ²
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012-2014 Cycle ²

¹ Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.

² Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.

(c) New Hong Kong Companies Ordinance

The requirements of Part 9 “Accounts and Audit” of the new Hong Kong Companies Ordinance (Cap. 622) come into operation during the financial year. As a result, there are changes to presentation and disclosures of certain information in the consolidated financial statements.

(d) Amendments to the Rules Governing the Listing of Securities on the Stock Exchange

The Stock Exchange in April 2015 released revised Appendix 16 of the Rules Governing the Listing of Securities in relation to disclosure of financial information in annual reports that are applicable for accounting periods ending on or after 31 December 2015, with earlier application permitted. The Company has adopted the amendments resulting in changes to the presentation and disclosures of certain information in the consolidated financial statements.

3. TURNOVER

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

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Provision of automatic teller machine (“ATM”) services	2,983	6,013
Sales of tree seedlings	19,090	–
	22,073	6,013

4. OTHER INCOME AND GAINS

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Interest income	3,610	3,878
Others	373	42
	3,983	3,920

5. FINANCE COSTS

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Finance lease charges	55	113
Interest on convertible bonds (<i>note 18</i>)	<u>2,125</u>	<u>–</u>
	<u><u>2,180</u></u>	<u><u>113</u></u>

6. INCOME TAX CREDIT

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Deferred tax		
Origination and reversal of temporary differences	<u>65</u>	<u>503</u>

No provision for profits tax in Bermuda, the British Virgin Islands or Hong Kong are required as the Group has no assessable profits arising in or derived from those jurisdictions for the years ended 31 December 2015 and 2014.

The People's Republic of China (the "PRC") Enterprise Income Tax rate for the PRC subsidiaries is 25% (2014: 25%) during the year. No provision for the PRC Enterprise Income Tax has been made in the consolidated financial statements for the years ended 31 December 2015 and 2014 as the PRC subsidiaries have either no assessable profits or sufficient tax losses brought forward to set off against assessable profits for the years.

7. LOSS FOR THE YEAR

The Group's loss for the year is stated after charging the following:

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Amortisation of intangible assets	1,333	1,926
Auditor's remuneration	1,138	1,120
Depreciation		
Charge to profit or loss	<u>2,463</u>	<u>3,808</u>
Capitalised in biological assets	<u>47</u>	<u>–</u>
	<u>2,510</u>	<u>3,808</u>
Net foreign exchange losses	172	1,754
Operating lease charges in respect of land and buildings and ATM deployment	8,906	11,275
Property, plant and equipment written off	9	7
Staff costs including directors' emoluments		
Salaries and other benefits	<u>22,605</u>	<u>18,999</u>
Retirement benefits schemes contributions	<u>2,768</u>	<u>2,107</u>
	<u><u>25,373</u></u>	<u><u>21,106</u></u>

8. DIVIDENDS

The directors do not recommend the payment of any dividend for the years ended 31 December 2015 and 2014.

9. 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\$61,490,000 (2014: HK\$51,117,000) and the weighted average number of ordinary shares of approximately 5,029,572,594 (2014: 4,196,721,000) in issue during the year.

(b) Diluted loss per share

For the years ended 31 December 2015 and 2014, the effects of all potential ordinary shares are anti-dilutive.

10. SEGMENT INFORMATION

Operating segments are identified on the basis of internal reports prepared in accordance with accounting policies which conform with the generally accepted accounting principles in the Hong Kong, that are regularly reviewed by the chief operating decision-maker (the “CODM”) to allocate resources to the segments and to assess their performance focuses on type of goods delivered and services rendered.

The CODM which is responsible for allocating resources and assessing performance of the operating segments has been defined as the executive directors of the Company.

During the year ended 31 December 2015, the CODM has identified the following two reportable segments under HKFRS 8 “Operating Segments”. No operating segments have been aggregated to form the following reportable segments.

The Group has two reporting segments as follows:

- ATM

- Tree plantation

The Group’s operating segments are strategic business units that offer different products and services. They are managed separately because each business requires different technology and marketing strategies.

Segment profit or loss represents the profit earned by each segment without allocation of corporate income and expense and central administration costs. Segment assets exclude corporate assets. Segment liabilities exclude corporate liabilities. Unallocated corporate income included foreign exchange gains and interest income. Unallocated corporate expenses included staff costs, professional fees and foreign exchange losses. Corporate assets included bank and cash balances, deposits paid and amounts due from group companies. Corporate liabilities included liability portion of convertible bonds.

Information about operating segment profit or loss, assets and liabilities:

	ATM <i>HK\$'000</i>	Tree plantation <i>HK\$'000</i>	Total <i>HK\$'000</i>
Year ended 31 December 2015			
Revenue from external customers	<u>2,983</u>	<u>19,090</u>	<u>22,073</u>
Segment loss	<u>(7,262)</u>	<u>(6,332)</u>	<u>(13,594)</u>
Interest income	166	1	167
Depreciation and amortisation	(1,810)	(261)	(2,071)
Property, plant and equipment written off	(9)	-	(9)
Prepaid consultancy and maintenance service costs written off	-	(5,158)	(5,158)
Impairment losses on property, plant and equipment	(104)	-	(104)
Impairment losses on intangible assets	(408)	-	(408)
Loss from changes in fair value less costs to sell of biological assets	-	(1,044)	(1,044)
Capital expenditure	92	170,918	171,010
As at 31 December 2015			
Segment assets	<u>97,796</u>	<u>490,206</u>	<u>588,002</u>
Segment liabilities	<u>269,524</u>	<u>308,946</u>	<u>578,470</u>

	ATM <i>HK\$'000</i>	Tree plantation <i>HK\$'000</i>	Total <i>HK\$'000</i>
Year ended 31 December 2014			
Revenue from external customers	6,013	–	6,013
Segment loss	(9,023)	(8,320)	(17,343)
Interest income	116	2	118
Depreciation and amortisation	(4,012)	(56)	(4,068)
Property, plant and equipment written off	(7)	–	(7)
Impairment losses on property, plant and equipment	(237)	–	(237)
Impairment losses on intangible assets	(1,123)	–	(1,123)
Loss from changes in fair value less costs to sell of biological assets	–	–	–
Capital expenditure	134	3,516	3,650
As at 31 December 2014			
Segment assets	151,136	219,933	371,069
Segment liabilities	178,625	178,790	357,415

Reconciliations of segment revenue and profit or loss:

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Revenue		
Total revenue of reportable segments	22,073	6,013
Profit or loss		
Total loss of reportable segments	(13,594)	(17,343)
Unallocated corporate income	22,968	12,985
Unallocated corporate expenses	(70,875)	(46,759)
Consolidated loss for the year	(61,501)	(51,117)

Reconciliations of segment assets and liabilities:

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Assets		
Total assets of reportable segments	588,002	371,069
Corporate assets	149,683	157,313
Elimination of intersegment assets	<u>(213,053)</u>	<u>(75,062)</u>
Consolidated total assets	<u><u>524,632</u></u>	<u><u>453,320</u></u>
Liabilities		
Total liabilities of reportable segments	578,470	357,415
Corporate liabilities	19,910	5,678
Elimination of intersegment liabilities	<u>(571,406)</u>	<u>(351,658)</u>
Consolidated total liabilities	<u><u>26,974</u></u>	<u><u>11,435</u></u>

Geographical information:

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

	Revenue		Non-current assets	
	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Hong Kong	–	–	19,935	1,915
PRC except Hong Kong	<u>22,073</u>	<u>6,013</u>	<u>344,485</u>	<u>218,272</u>
Consolidated total	<u><u>22,073</u></u>	<u><u>6,013</u></u>	<u><u>364,420</u></u>	<u><u>220,187</u></u>

Revenue from major customers:

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
ATM segment		
Customer a	2,983	3,671
Customer b	–	1,607
Tree plantation segment		
Customer a	15,804	–
Customer b	<u>3,286</u>	<u>–</u>

11. INTANGIBLE ASSETS

	Customer contracts <i>HK\$'000</i>
Cost:	
At 1 January 2014	57,551
Exchange adjustments	<u>(1,571)</u>
At 31 December 2014 and 1 January 2015	55,980
Exchange adjustments	<u>(2,952)</u>
At 31 December 2015	<u>53,028</u>
Accumulated amortisation and impairment:	
At 1 January 2014	51,667
Amortisation for the year	1,926
Impairment losses	1,123
Exchange adjustments	<u>(1,438)</u>
At 31 December 2014 and 1 January 2015	53,278
Amortisation for the year	1,333
Impairment losses	408
Exchange adjustments	<u>(2,879)</u>
At 31 December 2015	<u>52,140</u>
Carrying amount:	
At 31 December 2015	<u><u>888</u></u>
At 31 December 2014	<u><u>2,702</u></u>

The Group's intangible assets represent the customer contracts and the remaining amortisation period of the customer contracts is 1 year (2014: 2 years).

The Group carried out reviews of the recoverable amount of its intangible assets in 2015 and 2014 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. These intangible assets are used in the Group's ATM segment. Based on the review of the Group's management, internet financial services continue to mature and e-transactions gain popularity, demands for cash payment weakened, resulting in a shrinking development space for the ATM industry. In addition, the Group continued to increase ATM numbers in its key regions of operation, leading to a decline in the average transaction volume per ATM and

severely damaging its business revenues. Considering the shrinking market demand which resulted in intensified competitions, the Group's management considered that the ATM business of the Company has deviated from the core business principle of "cost reduction and revenue enhancement". This led to a decrease in its recoverable amount and a recognition of impairment losses of approximately HK\$408,000 (2014: HK\$1,123,000) for the year ended 31 December 2015 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 their fair value less costs of disposal which uses cash flow projections based on financial budgets approved by the directors covering a three-year (2014: five-year) period. The growth rate is based on expected inflation 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 in 2014 had been extrapolated using a steady rate of 2.9% per annum which was the expected inflation rate of the PRC. Budgeted gross margin and turnover are based on past practices and expectations of the ATM market development. The directors believe that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the carrying amount of the unit to exceed the aggregate recoverable amount of the ATM's cash-generating units.

The directors estimate the recoverable amount of the customer contracts included in intangible assets as at 31 December 2015 to be approximately HK\$888,000 (2014: HK\$2,702,000). The fair value of the ATM's cash-generating units is within level 3 of the fair value hierarchy. The fair value has been calculated by discounting the future cash flows at the post-tax discount rate of 14.4% (2014: 15.5%).

12. BIOLOGICAL ASSETS

(a) Nature of the Group's agricultural activities

The biological assets of the Group are North American red maple tree seedlings (the "Seedlings") which are held for sale and for garden and landscape construction projects. The Seedlings are categorised as consumable biological assets.

The quantities of the Seedlings owned by the Group as at 31 December 2015 and 2014 are listed below:

	2015	2014
	<i>Unit '000</i>	<i>Unit '000</i>
The Seedlings:	<u>1,208</u>	<u>20</u>

The Group is exposed to a number of risks related to its biological assets.

Financial risks

The Group is exposed to financial risks arising from changes in tree seedling prices. The Group does not anticipate that tree seedling prices will decline significantly in the foreseeable future and, therefore, has not entered into any derivative or other contracts to manage the risk of a decline in tree seedling prices. The Group reviews its outlook for tree seedling prices regularly in considering the need for active financial risk management.

Regulatory and environmental risks

The Group is subject to laws and regulations in the location in which it operate plantations. Management performs regular reviews to identify regulatory and environmental risks and to ensure that the systems in place are adequate to manage those risks.

Climate, disease and other natural risks

The Group's biological assets are exposed to the risk of damage from climatic changes, diseases and other natural forces. The Group has processes in place aimed at monitoring and mitigating those risks, including regular inspections and disease controls and surveys and insurance.

(b) Value of the Group's biological assets

The amounts of the Seedlings are as follow:

	2015	2014
	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January	2,182	–
Increase due to purchases	170,408	2,182
Increase due to plantation costs (<i>note</i>)	10,633	–
Decrease due to sales	(15,366)	–
Changes in fair value less costs to sell of biological assets	(1,044)	–
Exchange adjustments	(6,636)	–
	<hr/>	<hr/>
At 31 December	<u>160,177</u>	<u>2,182</u>

Note: The plantation costs comprise staff costs, depreciation, rental expenses of nurseries and other incidental costs.

13. PREPAYMENTS

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Prepaid consultancy and maintenance service costs (<i>note</i>)	164,896	–
Prepaid property, plant and equipment	2,356	–
	<u>167,252</u>	<u>–</u>

Note: Pursuant to several sales and purchase agreements entered into between the Group and a supplier during the year ended 31 December 2014, the supplier agreed to sell a total of 1.25 million units of the Seedlings at total consideration of approximately RMB284 million (equivalent to approximately HK\$335 million); and to provide 5 years consultancy and maintenance services on the growth of the Seedlings in order to ensure that the survival rate of the Seedlings is not less than 95%. The excess of the total consideration over the fair value of the Seedlings at initial recognition is recognised as prepaid consultancy and maintenance service costs and amortised over 5 years on a straight-line basis. The amortised consultancy and maintenance service costs are capitalised in the plantation costs of biological assets.

14. DEPOSITS

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Deposits paid for purchase of the Seedlings	–	211,413
Deposits paid for purchase of other tree seedlings	14,730	–
Deposits paid for potential projects	15,356	–
	<u>30,086</u>	<u>211,413</u>

15. TRADE AND OTHER RECEIVABLES

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Trade receivables (<i>note</i>)	6,010	367
Prepayments	4,235	3,654
Deposits	2,705	10,770
Other receivables	4,225	1,234
	<u>17,175</u>	<u>16,025</u>

Note: The Group's trading terms with all customers are mainly on credit. The credit period is generally ranging from 30 days to 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 date, is as follows:

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Current	6,010	303
Over 1 year	—	64
	<u>6,010</u>	<u>367</u>

As at 31 December 2015 and 2014, no impairment was made for estimated irrecoverable trade receivables.

As at 31 December 2015, there were no past due trade receivables. As at 31 December 2014, trade receivables of approximately HK\$64,000 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:

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
3 to 12 months	—	—
Over 1 year	—	64
	<u>—</u>	<u>64</u>

The Group's trade receivables as at 31 December 2015 and 2014 are denominated in Renminbi ("RMB").

16. TRADE AND OTHER PAYABLES

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Trade payables (<i>note</i>)	253	24
Accrued expenses	11,624	9,307
Other payables	540	571
	<u>12,417</u>	<u>9,902</u>

Note: The aging analysis of trade payables, based on the period of services rendered / goods sold, is as follows:

	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
1 to 3 months	188	24
3 to 12 months	62	–
Over 1 year	3	–
	<u>253</u>	<u>24</u>

The Group's trade payables as at 31 December 2015 and 2014 are denominated in RMB.

17. FINANCE LEASE PAYABLES

	Minimum lease payments		Present value of minimum lease payments	
	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>	2015 <i>HK\$'000</i>	2014 <i>HK\$'000</i>
Within one year	436	1,046	430	991
In the second to fifth years, inclusive	–	436	–	430
	<u>436</u>	<u>1,482</u>	<u>430</u>	<u>1,421</u>
Less: Future finance charges	(6)	(61)	N/A	N/A
Present value of lease obligations	<u>430</u>	<u>1,421</u>	<u>430</u>	<u>1,421</u>
Less: Amount due for settlement within 12 months (shown under current liabilities)			<u>(430)</u>	<u>(991)</u>
Amount due for settlement after 12 months			<u>–</u>	<u>430</u>

It is the Group's policy to lease its motor vehicles under finance leases. The lease term is 5 years. As at 31 December 2015, the effective borrowing rate was 6.26% (2014: 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.

The 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.

18. CONVERTIBLE BONDS

The convertible bonds were issued on 9 April 2015. The bonds are convertible into ordinary shares of the Company at any time within 24 months after the date of issue. The bonds are convertible at 760,000,000 shares with conversion price of HK\$0.2 per share.

If the bonds are not converted, they will be redeemed at par on 9 April 2017. Interest of 5% will be paid/payable annually up until that settlement date.

The net proceeds received from the issue of the convertible bonds have been split between the liability element and an equity component, as follows:

	2015 <i>HK\$'000</i>
Nominal value of convertible bonds issued	152,000
Transaction cost related to liability component	(1,310)
Equity component	(20,993)
	<hr/>
Liability component at date of issue	129,697
Interest charged (<i>note 5</i>)	2,125
Converted during the year	(117,743)
	<hr/>
Liability component at 31 December 2015	14,079
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The interest charged for the year is calculated by applying an effective interest rate of 13.4% to the liability component for the period from the date of issue.

The directors estimate the fair value of the liability component of the convertible bonds at 31 December 2015 to be approximately HK\$13,269,000. This fair value has been calculated by discounting the future cash flows at the market interest rate (level 2 fair value measurements).

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

Against the backdrop of global stagnation and continued slowdown of the Chinese economic growth, the business environment in 2015 was ever grimmer, and businesses also suffered from fizzled market demand and more fierce industry competition. Nevertheless, despite various uncertainties in the market, the Group carefully considered the situation, and took advantage of the government policies which greatly supported the development of environmental protection industry by flexibly adjusting its development strategy and expediting business upgrading based on its existing strengths, thus insulating itself from the shocks from the economic downturn, and at the same time, promoting the rapid development in its core landscape ecological business.

Landscape ecological business

During the past year, the overall landscape ecological industry showed steady development, with mixed performances in few individual markets. With the slowdown of Chinese economic growth and the promotion of structural reform by the government, developers slowed down development plans, leading to a drop in large-scale landscape projects and intensifying competitions in the ecological construction industry. However, a continued explosive growth has been observed in the ecological and environmental protection industry thanks to the rising environmental protection awareness and supportive policies of the state, with flourishing market segments such as water conservancy, air and soil pollution treatment which brought enormous business opportunities for the Group.

In addition to the enactment of environmental protection laws and provisions including “Ten Measures to Improve Water Quality”, “Opinions on Accelerating the Ecological Civilization Construction”, and the revised “Law on Prevention and Control of Air Pollution”, China officially launched the “Thirteenth Five-year Plan”, setting out number of environmental protection measures and policies which are especially beneficially to emerging industries such as water ecological conservation, soil remediation as well as waste disposal. The Group made good use of these favourable conditions, furthered existing projects, and made sound progress in its core environmental protection and ecological businesses development. Take the seeding business as an example. Last year, the seeding nursery base successfully cultivated 250,000 rare *Acer rubrums*. The base achieved excellent sales revenues in less than two years after establishment, which can help the Group consolidate its leading market position.

In solid waste management and renewable energy businesses, the Group established cooperative partnership with a number of large companies in the industry during the past year, so as to expand its business reach and to promote advances in both technology and services. In April 2015, the Group signed a strategic cooperation agreement with the best waste sorting and management service provider Baoding Zhengzhou Machinery Factory and set up a joint venture to expand its integrated domestic waste treatment and landfill management businesses. In the same month, the Group also reached consensus with China Environmental Protection Company, a subsidiary of the state-controlled China Energy-Saving Group to work together to explore the solid waste management markets both home and abroad. Besides, the Group signed letters of content for cooperation with Beijing Enchanting Environmental Protection Science and Technology Limited and Jinan Shijiazhuang Science and Technology Limited respectively in the next half of the year, to promote the waste oilation technology together and step up cooperation in designing, procurement and maintenance of plastic oilation projects so as to lay a solid foundation for the future development in solid waste management and energy conversion businesses.

In ecological landscape designing and construction businesses, despite the plummet in large-scale landscape projects numbers last year, the Group did not slow down related development plan, but rather actively looked for potential acquisition opportunities to further expand the business scale and consolidate the competitive edges. In November 2015, the Group signed letter of intent for acquisition with a renowned domestic landscape projects service provider to enhance its landscape projects contracting capacity and its overall service quality. The company has Grade A design and construction qualifications, and is specialized in professional technologies including nursery planting, landscape designing, project construction and green conservation, which can help the Group to build up one-stop landscape construction businesses and to seize more potential opportunities.

ATM Business

As Internet financial services continue to mature and e-transactions gain popularity, demands for cash payment weakened, resulting in a shrinking development space for the ATM industry. In addition, the Group continued to increase ATM numbers in its key regions of operation, leading to a decline in the average transaction volume per ATM and severely damaging its business revenues. Considering the shrinking market demand which resulted in intensified competitions, the management of the Group thinks that the ATM business of the Company has deviated from the core business principle of “cost reduction and revenue enhancement”. Therefore, the Group gradually ended all the jointly-operated ATM businesses in different cities to retain more resources for further expansion on landscape ecological and environmental protection related businesses, so as to save operations cost and boost the management revenues.

Prospects

In the coming years, the Chinese government is expected to expedite the structural reform and put quality development as a key point in the economic restructuring to promote a steady economic growth. On the other hand, the COP21 of the UN climate change conference was held in the end of last year. China, as one of the state parties, has set high standard emission cuts goals, and promised to steer the economic restructuring towards low carbon development. To this end, the Chinese government will continue to introduce more environmental protection policies and measures to support the development of environmental protection related industries, which will bring about favourable conditions for the Group to expand its businesses.

With full support from the government, the environmental protection industries gained momentum and the Group will actively upgrade its technologies to prepare itself for the future opportunities so as to stand out amongst all its competitors and make proactive moves in the market. Therefore, in the coming year, the Group will make a comprehensive strategic plan for cities with major business focuses, and adhere to the double track development mode of promoting environmental protection and ecological treatment at the same time. The Group will start various large-scale projects gradually, including the long-prepared Chongqing landfill treatment project in Qiqihar, Heilongjiang, the Dian Lake West Bank ecological wetland project in Kunming which costs as high as RMB1 billion, and the colourful five rivers countryside general model project in Bengbu, Anhui, to add momentum to the overall business development.

In the seeding segment which showed rapid development in the past year, the Group will expand colour seeding nursery base according to the business plan, and introduce foreign agricultural practices while researching and developing its own cultivation techniques, to finish the cultivation of 1 million Acer rubrums and other rare colour plants as early as possible and become the largest colour seeding supplier in Asia. In the meantime, in order to enhance the synergy effect among various segments, the Group plans to synchronize its expansion in landscape construction, solid waste treatment, and renewable energy businesses in major provinces such as Hebei, Henan, and Inner Mongolia to ensure a balanced development of the overall environmental protection and ecological construction businesses.

The next year will be the first year that the “Thirteenth Five-year Plan” is implemented. The Group will fully comply with environmental protection policies of the state, practice the diversified development principle, expand business areas through mergers, acquisitions and partnerships, and at the same time actively expanding its client base, striving to become the first choice for comprehensive environmental protection services.

Liquidity and Financial Resources

As at 31 December 2015, the Group had bank and cash balances of HK\$143.1 million (2014: HK\$217.1 million). The Group had no bank and other borrowings but finance lease liabilities of HK\$0.4 million as at 31 December 2015 (2014: HK\$1.4 million). As at 31 December 2015, the total assets value of the Group was HK\$524.6 million (2014: HK\$453.3 million) whereas the total liabilities was HK\$27.0 million (2014: HK\$11.4 million). The gearing ratio of the Group, calculated as total liabilities over total assets, was 5.2% (2014: 2.5%).

The Group maintained a net cash (being the total bank and cash balances net of finance lease liabilities and liability portion of convertible bonds (2014: finance lease liabilities)) to equity ratio of 25.8% (2014: net cash to equity ratio of 48.8%) as at 31 December 2015. With net cash of HK\$142.6 million (2014: net cash of HK\$215.7 million) as at 31 December 2015, 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 2015, the Group had approximately 57 (2014: 62) employees. Employees' costs (including directors' emoluments) amounted to approximately HK\$25.4 million (2014: HK\$21.1 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.

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

During the year ended 31 December 2015, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

CORPORATE GOVERNANCE PRACTICES

The Company is committed to the establishment of good corporate governance practices and procedures. The corporate governance principles of the Company emphasise a quality board, sound internal control, and transparency and accountability to all shareholders. The Company has applied the principles and complied with the Code Provisions 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 during the year ended 31 December 2015, except for the following deviations:

1. 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 are not appointed for 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.
2. The Code Provision E.1.2 and A.6.7 stipulates that the Chairman of the Board and the Non-executive Directors should attend the annual general meeting. The Chairman of the Board, Mr. Sze Wai, Marco and two Independent Non-executive Directors, Mr. Chong Yiu Kan, Sherman and Mr. Liu Liyang, were unable to attend the Company's annual general meeting which was held on 8 June 2015 as Mr. Liu was on other business engagement while Mr. Chong was not in Hong Kong. Although they were unable to attend, they had arranged Mr. Zhou Wei Feng, an Executive Director and Chief Executive Officer 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 their behalf and to chair the meeting and to respond to shareholders' questions.

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 audited consolidated annual results for the year ended 31 December 2015.

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 2015.

By order of the board
Beautiful China Holdings Company Limited
Sze Wai, Marco
Chairman

Hong Kong, 29 March 2016

As at the date of announcement, the Board of Directors of the Company comprises Sze Wai, Marco, Tan Shu Jiang, Zhou Wei Feng and Pan Tingxuan as Executive Directors, Law Fei Shing as Non-executive Director and Chong Yiu Kan, Sherman, Lum Pak Sum and Liu Liyang as Independent Non-executive Directors.