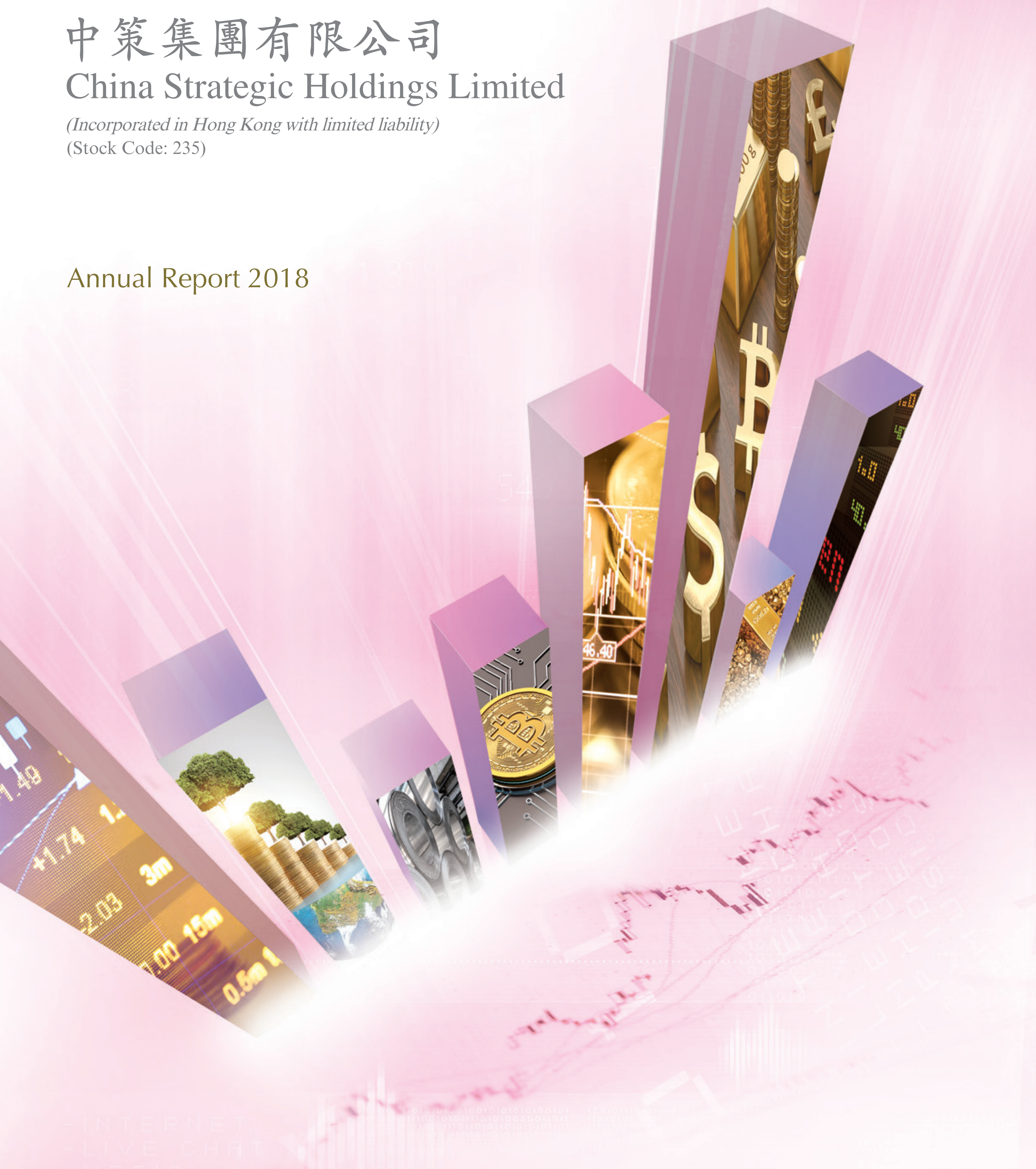
# 中策集團有限公司
# China Strategic Holdings Limited

*(Incorporated in Hong Kong with limited liability)*
(Stock Code: 235)

## Annual Report 2018



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# Abbreviations

In this annual report, the following abbreviations have the following meanings unless otherwise specified:

| | |
|---|---|
| "Board" | Board of Directors of the Company |
| "Company" | China Strategic Holdings Limited |
| "Directors" | directors of the Company |
| "Group" | the Company and its subsidiaries |
| "Hong Kong Companies Ordinance" | Companies Ordinance (Chapter 622 of the Laws of Hong Kong) |
| "Listing Rules" | Rules Governing the Listing of Securities on the Stock Exchange |
| "Model Code" | Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules |
| "PRC" | People's Republic of China |
| "RMB" | Renminbi |
| "SFO" | Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) |
| "Stock Exchange" | The Stock Exchange of Hong Kong Limited |
| "HK$" and "cents" | Hong Kong dollars and cent(s) |
| "US$" | United States dollars |
| "%" | per cent. |

*The Chinese version of this annual report is a translation of the English version and is for reference only. In case of any discrepancies or inconsistencies between the English version and the Chinese version, the English version shall prevail.*

# Corporate Information

## BOARD OF DIRECTORS

### Non-executive Director

Dr. Or Ching Fai *(Chairman)*

### Executive Directors

Mr. Sue Ka Lok *(Chief Executive Officer)*
Ms. Lee Chun Yeung, Catherine
Mr. Chow Kam Wah

### Independent Non-executive Directors

Ms. Ma Yin Fan
Mr. Chow Yu Chun, Alexander
Mr. Leung Hoi Ying

## AUDIT COMMITTEE

Ms. Ma Yin Fan *(Chairlady)*
Mr. Chow Yu Chun, Alexander
Mr. Leung Hoi Ying

## REMUNERATION COMMITTEE

Mr. Chow Yu Chun, Alexander *(Chairman)*
Ms. Ma Yin Fan
Mr. Leung Hoi Ying

## NOMINATION COMMITTEE

Dr. Or Ching Fai *(Chairman)*
Ms. Ma Yin Fan
Mr. Leung Hoi Ying

## EXECUTIVE COMMITTEE

Mr. Sue Ka Lok *(Chairman)*
Ms. Lee Chun Yeung, Catherine
Mr. Chow Kam Wah

## INVESTMENT & CREDIT COMMITTEE

Mr. Sue Ka Lok *(Chairman)*
Ms. Lee Chun Yeung, Catherine
Mr. Chow Kam Wah

## COMPANY SECRETARY

Ms. Leung Siu King

## REGISTERED OFFICE

Rooms 3206-3210, 32nd Floor
China Resources Building
26 Harbour Road
Wanchai, Hong Kong

## PRINCIPAL BANKERS

The Hong Kong and Shanghai Banking Corporation Limited
Bank of China (Hong Kong) Limited
Hang Seng Bank Limited
Bank of Communications Co., Ltd., Hong Kong Branch
BNP Paribas Hong Kong Branch

## LEGAL ADVISERS

Reed Smith Richards Butler
Stevenson, Wong & Co.
ONC Lawyers

## AUDITOR

Deloitte Touche Tohmatsu
*Certified Public Accountants*

## SHARE REGISTRAR

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

## TRADING OF SHARES

The Stock Exchange of Hong Kong Limited
(Stock Code: 235)

## WEBSITE

http://www.cshldgs.com

# Chairman's Statement

On behalf of the Board, I am pleased to present to the shareholders the results of the Group for the year ended 31 December 2018.

## RESULTS

For the year ended 31 December 2018, the Group continued to principally engage in the business of investment in securities, trading of commodities and electronic components, money lending as well as securities brokerage.

The Group delivered very encouraging results this year, an increase in profit attributable to owners of the Company of HK$582,597,000 was reported which represented a 462% increase over last year. The significant growth in the Group's profit was mainly contributed by the substantial net gains derived from the Group's listed equity securities portfolio as well as the increased profit contribution from the Group's money lending business. The Group's revenue also rose by 11% to HK$1,477,776,000 (2017: HK$1,337,246,000), which largely due to the increased interest income generated by the Group's money lending business and securities investments, and the increase in sales of the Group's trading operation.

The Group reported a profit and total comprehensive income attributable to owners of the Company of HK$708,790,000 (2017: HK$126,193,000) and HK$585,625,000 (2017: HK$150,930,000) respectively. Basic earnings per share were HK4.17 cents (2017: HK0.74 cent). The profitable results delivered by the Group were mainly attributed to the profit contributed by the Group's securities investment operation of HK$735,422,000 (2017: HK$165,454,000) and the Group's money lending business of HK$266,829,000 (2017: HK$186,184,000). The Group's other operations, namely trading and securities brokerage, also continued to report profitable results of HK$8,740,000 (2017: HK$9,965,000) and HK$7,484,000 (2017: HK$6,885,000) respectively.

## PROSPECTS

In recent months, the market uncertainties linked with the geopolitical risks in Korean peninsula and the pace of interest rate increases in the United States have been reduced. However, the ongoing trade disputes and settlement negotiations between the United States and China, and the instabilities in the European economy arising from the unresolved Brexit issue have continued to add new uncertainties and variables to outlook of world economy and global financial markets.

Although the Group had recorded substantial investment gain for the year, the rather volatile Hong Kong stock market and world financial market in the past months has led the management to continue its cautious and disciplined approach in managing the Group's securities portfolio. The Group's money lending business continued to deliver very encouraging results for the year. It is the intention of the management to continue developing this business under prudent credit management with the goal that this business will continue to contribute a stable and favorable income stream to the Group in future years. The performance of the Group's trading business was rather stable this year, the management will step up its effort in maintaining the competitiveness of the operation and will continue to look for new business opportunities. The business development of the securities brokerage operation has been progressed satisfactorily, the Group will continue to devote financial resources in developing this business.

# Chairman's Statement

Looking ahead, the Group will continue its business strategy of building an asset portfolio with good balance of recurring income streams and growth opportunities, to adopt measures to enhance its operational efficiencies and financial performance, and to seize business opportunities with attractive returns aiming to create value to our shareholders.

## APPRECIATION

On behalf of the Board, I would like to take this opportunity to thank all shareholders, investors, bankers, business associates and customers for their continuing support to the Group, my fellow directors for their valuable services, and all staff members for their contributions and hard work during the past year.

**Dr. Or Ching Fai**
*Chairman*

Hong Kong, 27 March 2019

# Management Discussion and Analysis

## BUSINESS REVIEW

For the year ended 31 December 2018, the Group continued to principally engage in the business of investment in securities, trading of commodities and electronic components, money lending as well as securities brokerage.

The increase in the Group's revenue by 11% to HK$1,477,776,000 (2017: HK$1,337,246,000) was largely due to the increase in interest income generated by the money lending business and securities investments, as well as the increase in sales of the trading operation, whereas the 462% increase in profit attributable to owners of the Company to HK$708,790,000 (2017: HK$126,193,000) was mainly due to the substantial net gains derived from the listed equity securities portfolio held by the Group and the increased profit contribution from the money lending business.

### Investment in Securities

The Group generally acquires securities listed on the Stock Exchange or other recognised stock exchanges and over-the-counter markets with good liquidity that can facilitate swift execution of securities transactions, and sometimes directly from target companies. For making investment or divestment decision on securities of individual target company, references will usually be made to the latest financial information, news and announcements issued by the target company, investment analysis reports that the Company has access to, as well as industry or macro-economic news. When deciding on acquiring securities to be held for long-term purpose, particular emphasis will be placed on the past financial performance of the target company including its sales and profit growth, financial healthiness, dividend policy, business prospect, industry and macroeconomic outlook. When deciding on acquiring securities to be held other than for long-term purpose, in addition to the factors mentioned, references will also be made to prevailing market sentiments on different sectors of the investment markets. In terms of return, for long-term securities investments, the Company mainly emphasises on return of investment in form of capital appreciation and dividend/interest income. For securities investments other than for long-term holding, the Company mainly emphasises on return of investment in form of trading gains.

At 31 December 2018, the Group's investment in securities operation held (i) a financial asset at fair value through profit or loss ("FVTPL") portfolio (constituted by non-current and current portions), comprising equity securities listed in Hong Kong and unlisted convertible securities, valued at HK$2,092,411,000 (2017: HK$1,314,561,000 (restated), including equity securities of HK$44,259,000 previously classified as available-for-sale ("AFS") investments); and (ii) a debt instrument at fair value through other comprehensive income ("FVTOCI") portfolio (constituted by non-current and current portions), comprising listed debt securities in Hong Kong or overseas, valued at HK$991,682,000 (2017: HK$1,279,121,000 (restated), representing debt instruments previously classified as AFS investments). As a whole, the operation recorded a revenue of HK$122,084,000 (2017: HK$88,110,000) and a profit of HK$735,422,000 (2017: HK$165,454,000).

### Financial assets at FVTPL

At 31 December 2018, the Group held a financial asset at FVTPL portfolio amounting to HK$2,092,411,000 measured at market/fair value. During the year under review, the portfolio generated a revenue of HK$21,103,000 (2017: HK$22,173,000 (restated), including dividend income of HK$1,818,000 previously recognised as dividend income from AFS investments) representing dividends from equity securities of HK$17,067,000 (2017: HK$14,349,000 (restated), including dividend income of HK$1,818,000 previously recognised as dividend income from AFS investments) and interest income from equity-linked notes and convertible securities of HK$4,036,000 (2017: HK$7,824,000). The Group recognised a net gain on financial assets at FVTPL of HK$619,093,000, which comprised net unrealised gain and net realised gain of HK$595,709,000 and HK$23,384,000 respectively (2017: net gain on financial assets at FVTPL of HK$65,345,000, which comprised net unrealised gain and net realised loss of HK$170,317,000 and HK$104,972,000 respectively). The net gain on financial assets at FVTPL was mainly due to the net increase in fair value of the Group's listed equity securities portfolio and the net realised gain on disposal of listed equity securities during the year. Such net increase in fair value of the Group's listed equity securities portfolio was mainly contributed by the increase in fair value of the Group's investment in listed shares of Evergrande Health Industry Group Limited, in which the Group has started to invest since March 2015, amounting to HK$868,197,000 during the year.

At 31 December 2018, the Group invested in different categories of companies and their weightings to the market/fair value of the Group's financial asset at FVTPL portfolio of HK$2,092,411,000 are as below:

| Category of companies | Approximate weighting to the market/fair value of the Group's financial asset at FVTPL portfolio<br>% |
|---|---|
| Banking | 10.29 |
| Conglomerate | 11.83 |
| Healthcare | 65.77 |
| Infrastructure | 7.29 |
| Property | 3.76 |
| Others | 1.06 |
| | 100.00 |

# Management Discussion and Analysis

At 31 December 2018, the weightings of the Group's top five and other investments to the market/fair value of the Group's financial asset at FVTPL portfolio of HK$2,092,411,000 (together with other information) are as below:

| Company name | Approximate weighting to the market/ fair value of the Group's financial asset at FVTPL portfolio % | % of shareholding interest % | Acquisition costs *HK$'000* | *Acquisition costs during the year/ carrying amount at 1 January 2018 *HK$'000* | Market/fair value at 31 December 2018 *HK$'000* | Accumulated unrealised gain (loss) recognised up to 31 December 2018 *HK$'000* | Unrealised gain (loss) recognised during the year ended 31 December 2018 *HK$'000* |
|---|---|---|---|---|---|---|---|
| | | | A | B | C | D = C - A | E = C - B |
| Evergrande Health Industry Group Limited (stock code: 708) | 65.77 | 1.55 | 219,312 | 507,883 | 1,376,080 | 1,156,768 | 868,197 |
| Bank of Zhengzhou Co., Ltd. (stock code: 6196) | 9.12 | 3.30# | 195,428 | 195,428 | 190,919 | (4,509) | (4,509) |
| The Cross-Harbour (Holdings) Limited (stock code: 32) | 7.29 | 3.52 | 77,377 | 162,888 | 152,634 | 75,257 | (10,254) |
| Get Nice Holdings Limited (stock code: 64) | 3.58 | 3.10 | 78,000 | 90,000 | 75,000 | (3,000) | (15,000) |
| Emperor International Holdings Limited (stock code: 163) | 2.91 | 0.89 | 77,630 | 86,203 | 60,869 | (16,761) | (25,334) |
| Others | 11.33 | N/A | 693,685 | 454,300 | 236,909 | (456,776) | (217,391) |
| | 100.00 | | 1,341,432 | 1,496,702 | 2,092,411 | 750,979 | 595,709 |

* The amount represented the costs of the securities acquired during the year ended 31 December 2018 and/or the carrying amount of the securities brought forward from the prior financial year after accounting for additional acquisition and/or disposal of the securities (if any) during the current financial year.

# The percentage of shareholding interest was calculated on the basis of 1,518,000,000 H shares of Bank of Zhengzhou Co., Ltd. (stock code: 6196) in issue at 31 December 2018.

The tables below set out the (i) unrealised gain (loss) recognised for the year ended 31 December 2018 for the financial assets at FVTPL held by the Group at 31 December 2018 together with information on financial performance of the investee companies and their future prospects; and the (ii) realised gain (loss) on financial assets at FVTPL disposed of during the year ended 31 December 2018. The Group is committed to closely monitor the financial performance of its financial asset at FVTPL portfolio through making investment and divestment decisions on individual securities from time to time based on, amongst others, internal assessments on prospects of individual securities and publicly available information of investee companies.

### (i) Unrealised gain (loss) recognised for the year ended 31 December 2018 for the financial assets at FVTPL held by the Group at 31 December 2018 together with information on financial performance of the investee companies and their future prospects

| Industry | Abbreviation of investee company | # Principal activities of investee company | * Acquisition costs during the year/ carrying amount at 1 January 2018 *HK$'000* | % of shareholding interest % | Market/ fair value at 31 December 2018 *HK$'000* | % to total market/ fair value of the Group's financial asset at FVTPL portfolio % | Unrealised gain (loss) recognised during the year ended 31 December 2018 *HK$'000* | # Investee company's financial performance | # Future prospects of the investee company |
|---|---|---|---|---|---|---|---|---|---|
| **Equity securities listed in Hong Kong** | | | | | | | | | |
| **Banking** | A+ | Banking business | 195,428 | 3.30 | 190,919 | 9.12 | (4,509) | For the year ended 31 December 2018, interest income, as its major source of revenue, increased by 3% to RMB18,992,970,000 while profit for the year decreased by 28% to RMB3,101,456,000 as compared to 2017. | Under the strong leadership of the board of directors of the investee company, it will continue to implement the general requirements of the strategy to "recontrol risks, reinforce capacity and refocus on finance with personnel, technology and systems support" by focusing on capacity improvement and the "three distinctive business positioning features" and insisting on quality development and risk prevention and control, so as to promote its long-term stable development. |
| | B | Banking business | 44,259 | 0.46 | 24,381 | 1.17 | (19,878) | For the year ended 31 December 2018, interest income, as its major source of revenue, increased by 1% to RMB42,805,495,000 while profit for the year decreased by 32% to RMB5,126,148,000 as compared to 2017. | The investee company will adopt a business strategy of pursuing stable growth continue to promote transformation and innovation, deepen the reform of systems and mechanisms, and continuously optimise the asset and liability structure to pursue a high-quality development, all of which form the core driving force for future development. |
| | | | **239,687** | | **215,300** | **10.29** | **(24,387)** | | |

# Management Discussion and Analysis

**(i) Unrealised gain (loss) recognised for the year ended 31 December 2018 for the financial assets at FVTPL held by the Group at 31 December 2018 together with information on financial performance of the investee companies and their future prospects (continued)**

| Industry | Abbreviation of investee company | #Principal activities of investee company | * Acquisition costs during the year/ carrying amount at 1 January 2018 HK$'000 | % of shareholding interest % | Market/ fair value at 31 December 2018 HK$'000 | % to total market/ fair value of the Group's financial asset at FVTPL portfolio % | Unrealised gain (loss) recognised during the year ended 31 December 2018 HK$'000 | #Investee company's financial performance | #Future prospects of the investee company |
|---|---|---|---|---|---|---|---|---|---|
| **Conglomerate** | C+ | Broking and securities margin financing, money lending, corporate finance and investments | 90,000 | 3.10 | 75,000 | 3.58 | (15,000) | For the six months ended 30 September 2018, revenue increased by 9% to HK$280,567,000 while profit for the period decreased by 30% to HK$125,546,000 as compared to the same period in 2017. | The investee company will keep seeking quality and upscale investment properties in both Asia and Europe, and also investment in securities with good potential, to enhance its investment portfolio and continue to provide a source of steady rental income and investment gains in the future. |
| | D | Operation of agriculture wholesale market in the PRC and provision of leasing space at the warehouse, icehouses and other facilities | 32,092 | 0.27 | 41,581 | 1.99 | 9,489 | For the year ended 31 December 2018, revenue increased by 14% to RMB1,128,654,000 while loss for the year increased by 174% to RMB348,601,000 as compared to 2017. | The investee company will revolutionalise its business model and transform itself of being a "traditional property developer for fresh agriculture products" to "an advanced fresh food circulation service provider and supplier" in China by investing and establishing a modernised electronic trading system in the wholesale markets and providing different kinds of ancillary and value-added services to its customers. |
| | E | International trading, financial guarantee services, finance lease services, property investment, financial advisory services and logistics services | 14,000 | 1.20 | 14,875 | 0.71 | 875 | For the six months ended 30 September 2018, revenue increased by 80% to HK$839,136,000 and its results experienced a turnaround and recorded a profit for the period of HK$40,832,000 as compared to the same period in 2017. | For the asset management business, the investee company expects to develop the new business that expands its product offerings and capabilities in China. Besides, for the property investment segment, the investee company expects new revenue streams in the form of rental and management fees from its project in Hanzhong, and a construction currently in progress for a prime commercial and office building situated in Xi'an in the forthcoming year. |

# Management Discussion and Analysis

## (i) Unrealised gain (loss) recognised for the year ended 31 December 2018 for the financial assets at FVTPL held by the Group at 31 December 2018 together with information on financial performance of the investee companies and their future prospects (continued)

| Industry | Abbreviation of investee company | #Principal activities of investee company | * Acquisition costs during the year/ carrying amount at 1 January 2018 *HK$'000* | % of shareholding interest % | Market/ fair value at 31 December 2018 *HK$'000* | % to total market/ fair value of the Group's financial asset at FVTPL portfolio % | Unrealised gain (loss) recognised during the year ended 31 December 2018 *HK$'000* | #Investee company's financial performance | #Future prospects of the investee company |
|---|---|---|---|---|---|---|---|---|---|
| | F | Property investment, property leasing and treasury management | 17,756 | 0.95 | 14,311 | 0.68 | (3,445) | For the year ended 31 December 2018, revenue increased by 92% to HK$65,958,000 while profit for the year decreased by 14% to HK$109,180,000 as compared to 2017. | The investee company focuses on maintaining a stable business development principally by increasing its exposure in investment properties for recurring and stable rental income with reasonable return, fixed income debt investment for stable interest income with sustainable return and expanding its money lending business to earn interest income for future growth. |
| | G | Exploration, development and mining of mineral resources, investment in financial instruments, property investment, money lending and e-logistics platform | 23,796 | 1.50 | 13,349 | 0.64 | (10,447) | For the six months ended 30 September 2018, revenue increased by 65% to US$23,371,000 while its results experienced a turnaround and recorded a loss for the period of US$39,485,000 as compared to the same period in 2017. | The investee company continues its mining business, cautiously expands the money lending business and brings in new credit-worthy customers, actively seeks diversified investments to increase the value of its financial instruments business and expects to continue generating stable rental income from its property investments. |
| | H | Property development and investment, catering and trading and investment | 24,500 | 0.29 | 10,150 | 0.49 | (14,350) | For the year ended 31 December 2018, revenue decreased by 34% to HK$1,458,321,000 and its result experienced a turnaround and recorded a loss for the year of HK$3,699,056,000 as compared to 2017. | The investee company will consolidate and strive to become a leading integrated tourism, hospitality and retail services project developer in PRC and abroad, thereby generating stable, long-term and abundant investment returns for the shareholders continuously. |
| | Others | - | 126,771 | N/A | 30,683 | 1.47 | (96,088) | - | - |
| | | | 328,915 | | 199,949 | 9.56 | (128,966) | | |

# Management Discussion and Analysis

### (i) Unrealised gain (loss) recognised for the year ended 31 December 2018 for the financial assets at FVTPL held by the Group at 31 December 2018 together with information on financial performance of the investee companies and their future prospects (continued)

| Industry | Abbreviation of investee company | #Principal activities of investee company | * Acquisition costs during the year/ carrying amount at 1 January 2018 HK$'000 | % of shareholding interest % | Market/ fair value at 31 December 2018 HK$'000 | % to total market/ fair value of the Group's financial asset at FVTPL portfolio % | Unrealised gain (loss) recognised during the year ended 31 December 2018 HK$'000 | #Investee company's financial performance | #Future prospects of the investee company |
|---|---|---|---|---|---|---|---|---|---|
| **Healthcare** | I+ | Provision of "Internet+" community health management, international hospitals, elderly care and rehabilitation, medical cosmetology and anti-ageing in PRC | 507,883 | 1.55 | 1,376,080 | 65.77 | 868,197 | For the year ended 31 December 2018, revenue from continuing operations increased by 136% to RMB3,133,018,000 while its results experienced a turnaround and recorded a loss for the year from continuing operations of RMB1,428,378,000 as compared to 2017. | Apart from continuously developing its healthcare business, the investee company has completed the layout of the new energy vehicle industry chain with the aim of becoming one of the largest, most reputable and best quality new energy vehicle global brand names within three to five years. |
| | | | **507,883** | | **1,376,080** | **65.77** | **868,197** | | |
| **Infrastructure** | J+ | Operation of motoring schools, tunnels and an electronic toll collection system, and investment | 162,888 | 3.52 | 152,634 | 7.29 | (10,254) | For the year ended 31 December 2018, revenue increased by 39% to HK$640,937,000 while profit for the year decreased by 60% to HK$495,467,000 as compared to 2017. | Reported increase in revenue for the year ended 31 December 2018 and offered stable dividend payout. The investee company will continue with its principal businesses. |
| | | | **162,888** | | **152,634** | **7.29** | **(10,254)** | | |
| **Property** | K+ | Property investments, property development and hospitality | 86,203 | 0.89 | 60,869 | 2.91 | (25,334) | For the six months ended 30 September 2018, revenue increased by 5% to HK$1,536,451,000 and profit for the period increased by 53% to HK$2,575,489,000 as compared to the same period in 2017. | The investee company will continue to replenish its land bank through multiple channels in order to strengthen earnings and shareholders' value, and believes its investment properties will drive solid recurrent rental income in the long-run with its well-developed portfolio of Grade-A commercial buildings. |
| | **Others** | - | 11,368 | N/A | 17,775 | 0.85 | 6,407 | - | - |
| | | | **97,571** | | **78,644** | **3.76** | **(18,927)** | | |

(i) **Unrealised gain (loss) recognised for the year ended 31 December 2018 for the financial assets at FVTPL held by the Group at 31 December 2018 together with information on financial performance of the investee companies and their future prospects (continued)**

| Industry | Abbreviation of investee company | #Principal activities of investee company | * Acquisition costs during the year/ carrying amount at 1 January 2018 HK$'000 | % of shareholding interest % | Market/ fair value at 31 December 2018 HK$'000 | % to total market/ fair value of the Group's financial asset at FVTPL portfolio % | Unrealised gain (loss) recognised during the year ended 31 December 2018 HK$'000 | #Investee company's financial performance | #Future prospects of the investee company |
|---|---|---|---|---|---|---|---|---|---|
| **Others** | - | - | 109,424 | N/A | 22,196 | 1.06 | (87,228) | - | - |
| | | | **109,424** | | **22,196** | **1.06** | **(87,228)** | | |
| **Unlisted convertible securities** | | | | | | | | | |
| **Conglomerate** | L | Wind farms development and operation, wind power generation, finance leasing and security trading | 50,334 | N/A | 47,608 | 2.27 | (2,726) | For the year ended 31 December 2018, revenue decreased by 7% to RMB361,184,000 and its results experienced a turnaround and recorded a loss for the year of RMB37,258,000 as compared to 2017. | The investee company will speed up the development of renewable energy business by way of cooperative development and acquisitions, and continue to identify and acquire mature power plants with promising development prospects in order to strengthen the existing wind farm operation and maintenance business in northern China and gradually extend the business to the surrounding areas. |
| | | | **50,334** | | **47,608** | **2.27** | **(2,726)** | | |
| | | | **1,496,702** | | **2,092,411** | **100.00** | **595,709** | | |

+ In the table above, investee company A, C, I, J and K stands for Bank of Zhengzhou Co., Ltd. (stock code: 6196), Get Nice Holdings Limited (stock code: 64), Evergrande Health Industry Group Limited (stock code: 708), The Cross-Harbour (Holdings) Limited (stock code: 32) and Emperor International Holdings Limited (stock code: 163) respectively.

# Extracted from published financial information of the investee companies.

* The amount represented the costs of the securities acquired during the year ended 31 December 2018 and/ or the carrying amount of the securities brought forward from the prior financial year after accounting for additional acquisition and/or disposal of the securities (if any) during the current financial year.

# Management Discussion and Analysis

### (ii) Realised gain (loss) on financial assets at FVTPL disposed of during the year ended 31 December 2018

| Industry | Abbreviation of investee company | # Principal activities of investee company | * Acquisition costs during the year/carrying amount at 1 January 2018 *HK$'000* | Sale proceeds of financial assets at FVTPL sold during the year ended 31 December 2018 *HK$'000* | Realised gain (loss) recognised during the year ended 31 December 2018 *HK$'000* |
|---|---|---|---|---|---|
| **Equity securities listed in Hong Kong** | | | | | |
| **Banking** | **A** | Banking business | 142,603 | 166,046 | 23,443 |
| | **M** | Banking business | 14,679 | 12,870 | (1,809) |
| | | | **157,282** | **178,916** | **21,634** |
| **Conglomerate** | **N** | Printing, trading and logistics, property development and investments, solar photovoltaic and financial services | 174,418 | 175,000 | 582 |
| | **Others** | – | 1,210 | 1,000 | (210) |
| | | | **175,628** | **176,000** | **372** |
| **Others** | **–** | – | 26,291 | 27,669 | 1,378 |
| | | | **26,291** | **27,669** | **1,378** |
| | | | **359,201** | **382,585** | **23,384** |

# Extracted from published financial information of the investee companies.

* The amount represented the costs of the securities acquired during the year ended 31 December 2018 and/or the carrying amount of the securities brought forward from the prior financial year after accounting for additional acquisition and/or disposal of the securities (if any) during the current financial year.

*Debt instruments at FVTOCI (debt instruments previously recognised as AFS investments)*

At 31 December 2018, the Group's debt instrument at FVTOCI portfolio of HK$991,682,000 was measured at market/fair value. During the year under review, the Group's debt instrument at FVTOCI portfolio generated total revenue amounting to HK$100,981,000 (2017: HK$65,937,000 (restated)), representing interest income from debt securities. According to the maturity of the debt securities, part of the debt instruments at FVTOCI of HK$3,822,000 was classified as current assets.

During the year under review, the Group invested HK$46,562,000 for acquiring debt securities issued by various property companies listed on the Stock Exchange.

At the year end, a net fair value loss on the debt instrument at FVTOCI portfolio amounting to HK$145,512,000 was recognised as other comprehensive expense (2017: gain on AFS investment portfolio of HK$33,516,000). Such net fair value loss on debt investments held by the Group was mainly a result of the general increase in market interest rates during the year, which caused the market value of debt securities held by the Group to drop.

During the year under review, the Group disposed of debt securities amounting to HK$126,089,000 and debt securities of HK$62,400,000 were redeemed by an issuer. A loss on disposal and on redemption totalling HK$2,789,000 was released from the Group's investment revaluation reserve and reclassified as loss in the current year (2017: gain of HK$8,779,000).

# Management Discussion and Analysis

At 31 December 2018, the Group invested in debt securities of various aircraft leasing company, banking company and property company and their respective weightings to the market/fair value of the Group's debt instrument at FVTOCI of HK$991,682,000 (together with other information) are as below:

| Category of companies | Approximate weighting to the market/fair value of the Group's debt instrument at FVTOCI portfolio % | Yield to maturity on acquisition % | Acquisition costs *HK$'000* | *Acquisition costs during the year/carrying amount at 1 January 2018 *HK$'000* | Market/fair value at 31 December 2018 *HK$'000* | Accumulated fair value gain (loss) recognised up to 31 December 2018 *HK$'000* | Fair value gain (loss) recognised during the year ended 31 December 2018 *HK$'000* |
|---|---|---|---|---|---|---|---|
| | | | A | B | C | D = C - A | E = C - B |
| **Debt securities listed in Hong Kong or overseas** | | | | | | | |
| **Aircraft leasing** | 12.77 | 5.09 | 148,348 | 144,692 | 126,652 | (21,696) | (18,040) |
| **Banking** | 15.03 | 3.73 - 3.91 | 156,999 | 161,312 | 149,088 | (7,911) | (12,224) |
| **Property** | 72.20 | 4.68 - 14.41 | 786,862 | 825,096 | 715,942 | (70,920) | (109,154) |
| | 100.00 | | 1,092,209 | 1,131,100 | 991,682 | (100,527) | (139,418) |

* The amount represented the costs of the securities acquired during the year ended 31 December 2018 and/or the carrying amount of the securities brought forward from the prior financial year after accounting for additional acquisition and/or disposal of the securities (if any) during the current financial year.

The yield to maturity on acquisition of debt securities which were held by the Group at the year end ranging from 3.73% to 14.41% per annum.

### Trading

The Group's trading business is mainly conducted through China Strategic Metal and Minerals Limited, a wholly owned subsidiary of the Company. During the year under review, the Group's trading operation continued to focusing on trading of commodities including metal minerals, metal, coke products and electronic components. The revenue of the operation of HK$1,072,587,000 (2017: HK$1,050,406,000) was in line with last year while its profit dropped by 12% to HK$8,740,000 (2017: HK$9,965,000). The drop in the operation's profit was primarily a result of reduced margin earned from certain transactions owing to increased competition amongst traders in commodity markets. The management will step up its effort in maintaining the competitiveness of the operation and will continue to look for new business opportunities.

### Money Lending

The Group's money lending business is conducted through CS Credit Limited and U Credit (HK) Limited, both are wholly owned subsidiaries of the Company. The operation continued to record encouraging results by posting a significant growth in revenue of 42% to HK$269,369,000 (2017: HK$189,555,000), and an increase in profit of 43% to HK$266,829,000 (2017: HK$186,184,000). Such increases were mainly due to the higher average amount of loans advanced to borrowers during the year and the management's effort in enlarging the operation's clientele base. During the year under review, there was no default in repayments from borrowers, nevertheless, an impairment allowance of HK$11,800,000, as a general provision, was recognised against loan receivables. The loan portfolio held by the Group amounting to HK$2,509,386,000 (after impairment allowance) at the year end (2017: HK$2,058,000,000) with details as follows:

| Category of borrowers | Approximate weighting to the carrying amount of the Group's loan portfolio | Interest rate per annum | Maturity |
|---|---|---|---|
| | % | % | |
| Individual | 46.51 | 8.50 – 18.00 | Within 1 year |
| Individual | 0.84 | 10.125 | Over 1 year but within 3 years |
| Corporate | 52.23 | 10.00 – 18.00 | Within 1 year |
| Corporate | 0.42 | 3.00 – 8.125 | Over 1 year but within 3 years |
| | 100.00 | | |

At 31 December 2018, 91% (2017: 92%) of the loan portfolio is secured by collaterals, 8% (2017: 2%) is guaranteed by credible guarantors, and with the remaining 1% (2017: 6%) being unsecured.

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

# Management Discussion and Analysis

### Securities Brokerage

The Group's securities brokerage business is conducted through CS Wealth Securities Limited, a wholly owned subsidiary of the Company, licensed by the Hong Kong Securities and Futures Commission to carry out dealing in securities activities. During the year under review, the securities brokerage business achieved a strong increase in revenue of 50% to HK$13,736,000 (2017: HK$9,175,000) and increase in profit of 9% to HK$7,484,000 (2017: HK$6,885,000). The increases in the operation's revenue and profit are largely due to the management's effort in promoting its business and expanded its business scope to participation of corporate shares placing and underwriting exercises. The profit of the operation increased at a lesser rate than its revenue was mainly a result of additional headcounts and increase in certain administrative expenses of the operation.

### Overall Results

For the year ended 31 December 2018, the Group recorded profit attributable to owners of the Company of HK$708,790,000 (2017: HK$126,193,000) and basic earnings per share of HK4.17 cents (2017: HK0.74 cent). The Group also recorded total comprehensive income attributable to owners of the Company of HK$585,625,000 (2017: HK$150,930,000). The profitable results recorded by the Group were mainly attributed to the profit of the securities investment operation of HK$735,422,000 (2017: HK$165,454,000) and profit of the money lending business of HK$266,829,000 (2017: HK$186,184,000).

## FINANCIAL REVIEW

### Liquidity, Financial Resources and Capital Structure

For the year ended 31 December 2018, the Group financed its operation mainly by cash generated from its operations, credit facilities provided by banks and securities brokers, funds raised through issuance of interest bearing notes and shareholders' funds. At the year end, the Group had current assets of HK$4,987,044,000 (2017: HK$3,934,227,000) and liquid assets comprising bank balances and cash as well as financial assets at FVTPL (excluding clients' money held relating to the Group's securities brokerage business and pledged bank deposits) totalling HK$2,230,534,000 (2017: HK$1,618,055,000). The Group's current ratio, calculated based on current assets over current liabilities of HK$831,834,000 (2017: HK$2,133,885,000), was at a ratio of about 6.0 (2017: 1.8). At 31 December 2018, the Group's trade and other receivables amounted to HK$182,910,000 (2017: HK$56,632,000) which mainly comprised trade receivables from cash and margin clients of the securities brokerage business and the outstanding principal of a convertible bond subscribed by the Group which was due for repayment before the year end as the Group had not exercised the conversion option. The Group also had deferred tax liabilities amounting to HK$84,242,000 (2017: HK$34,853,000) that was principally related to the net unrealised gain on financial assets at FVTPL valued at market/fair value and unused tax losses at the year end.

At 31 December 2018, the equity attributable to owners of the Company amounted to HK$3,645,982,000 (2017: HK$3,072,157,000) and was equivalent to an amount of approximately HK21.46 cents (2017: HK18.08 cents) per share of the Company. The increase in equity attributable to owners of the Company of HK$573,825,000 was mainly a result of the significant profit and gains recognised by the Group during the year.

At 31 December 2018, the Group's borrowings represented bank borrowings and margin financing raised mainly for acquiring debt and equity securities. The borrowings bore interests at floating rates, secured by certain debt and equity securities and were repayable within one year or on demand. In December 2016, the Company issued 2-year unsecured notes with nominal value of HK$1,500,000,000 bearing interest at 7% per annum and 8% per annum for the first and second year respectively. During the year, notes with nominal value of HK$200,000,000 were redeemed and the Company executed a supplemental deed poll to extend the maturity date of the remaining notes with nominal value of HK$1,300,000,000 for further two years to 16 December 2020 bearing interest at 9.5% per annum and 10% per annum for the third and fourth year respectively. In addition, the Company issued a new tranche of 2-year unsecured notes in August 2018 with nominal value of HK$200,000,000 bearing interest at 9.5% per annum and 10% per annum for the first and second year respectively.

The Group's gearing ratio, calculated on the basis of total liabilities of HK$2,416,401,000 (2017: HK$2,168,738,000) divided by the equity attributable to owners of the Company of HK$3,645,982,000 (2017: HK$3,072,157,000), was about 66% (2017: 71%). The decrease in the Group's gearing ratio was mainly due to the significant profit recognised this year though there were new borrowings raised for acquiring debt and equity securities during the year. The Group's finance costs increased to HK$162,053,000 (2017: HK$134,890,000) were primarily a result of the new borrowings raised during the year.

With the amount of liquid assets on hand as well as credit facilities granted by banks and securities brokers, the management is of the view that the Group has sufficient financial resources to meet its ongoing operational requirements.

### Foreign Currency Management

The monetary assets and liabilities as well as business transactions of the Group are mainly denominated in Hong Kong dollars and United States dollars. During the year under review, the Group had not experienced any significant exposure to exchange rate fluctuations, as such, the Group had not entered into any foreign currency forward contracts, currency swaps or other financial derivatives for hedging purposes.

### Contingent Liability

At 31 December 2018, the Group had no significant contingent liability (2017: nil).

### Pledge of Assets

At 31 December 2018, debt securities of HK$828,005,000 (2017: HK$744,281,000), equity securities of HK$1,713,361,000 (2017: HK$19,349,000) and bank deposits of HK$31,394,000 (2017: HK$30,821,000) were pledged to secure credit facilities granted.

### Capital Commitment

At 31 December 2018, the Group had no significant capital commitment (2017: nil).

### Event After the Reporting Period

Save as disclosed above and in the "Chairman's Statement" section set out on pages 4 to 5 of this annual report, there has been no significant event affecting the Group since the end of the financial year.

# Management Discussion and Analysis

## HUMAN RESOURCES AND REMUNERATION POLICY

At 31 December 2018, the Group had 55 (2017: 55) employees including directors of the Company and staff costs (including directors' emoluments) for the year amounted to HK$31,278,000 (2017: HK$38,876,000). The remuneration packages for directors and staff are normally reviewed annually and are structured by reference to prevailing market terms and individual competence, performance and experience. The Group operates a Mandatory Provident Fund Scheme for employees in Hong Kong. In addition, the Group provides other employee benefits including medical insurance, training subsidy, discretionary bonus and participation in the Company's share option scheme.

## PRINCIPAL RISK AND UNCERTAINTIES

The Group is principally engaged in the business of investment in securities, trading of metal minerals, metal, coke products and electronic components, money lending as well as securities brokerage. The financial position, operations, businesses and prospects of the Group and its individual business segment are affected by the following significant risk and uncertainty factors:

### Business Risk

The global economic conditions and the state of international financial and investment markets, including the economy, financial and investment markets of the United States, Mainland China and Hong Kong, of which the Group has no control, have significant influences on the business and financial performance of the Group. The management policy to mitigate this risk is to diversify the Group's business and to diversify its investments (where possible) within the same business, as in the case of the Group's investment in securities business.

### Market Risk

The Group's money lending business, trading business of metal minerals, metal, coke products and electronic components as well as securities brokerage business are all operating in a very competitive environment that put pressure on the revenue and profitability of these businesses. The management policy to mitigate this risk is to continue to put effort in enlarging the market share and enhancing the market competitiveness of these businesses by various means.

### Financial Risk

The Group is exposed to financial risks relating to interest rate, securities price, foreign currency, credit and liquidity risk in its ordinary course of business. For further details of such risks and relevant management policies, please refer to Note 36 to the consolidated financial statements.

## COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

As far as the Board and management are aware, the Group has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Group. During the year under review, there was no material breach of or non-compliance with the applicable laws and regulations by the Group.

## RELATIONSHIP WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group understands the importance of maintaining a good relationship with its employees, customers and suppliers to meet its immediate and long-term business goals. During the year ended 31 December 2018, there were no significant dispute between the Group and its employees, customers and suppliers.

# Biographical Details of Directors

The biographical details of Directors at 27 March 2019, the date of this annual report, are set out below:

## NON-EXECUTIVE DIRECTOR

**Dr. Or Ching Fai ("Dr. Or"),** *Chairman*

Aged 69, joined the Company as an Executive Director and the Chief Executive Officer in November 2009 and was appointed the Chairman of the Board in March 2012. Dr. Or stepped down from his position as Chief Executive Officer in January 2018 and was re-designated as a Non-executive Director in April 2018. Dr. Or is the Chairman of the Nomination Committee and is also a director of certain subsidiaries of the Company. Dr. Or graduated from The University of Hong Kong in 1972 and was conferred an Honorary Doctor of Social Science by the City University of Hong Kong in November 2014. Dr. Or is currently an executive director and the chairman of Esprit Holdings Limited (HKEX stock code: 330). Dr. Or is also an independent non-executive director of Chow Tai Fook Jewellery Group Limited (HKEX stock code: 1929), Regina Miracle International (Holdings) Limited (HKEX stock code: 2199) and Television Broadcasts Limited (HKEX stock code: 511). He was the former vice chairman and chief executive of Hang Seng Bank Limited (HKEX stock code: 11), the former chairman of Hang Seng Life Limited and a director of The Hongkong and Shanghai Banking Corporation Limited, Cathay Pacific Airways Limited (HKEX stock code: 293) and Hutchison Whampoa Limited (HKEX stock code: 13 (delisted)) until his retirement in May 2009. Dr. Or was also the former vice chairman and independent non-executive director of G-Resources Group Limited (HKEX stock code: 1051), an independent non-executive director of Industrial and Commercial Bank of China Limited (HKEX stock code: 1398), and the former deputy chairman and non-executive director of Aquis Entertainment Limited (ASX stock code: AQS) (a company listed on the Australian Securities Exchange Limited). All the aforementioned companies with HKEX stock code are/was listed on the Main Board of the Stock Exchange.

## EXECUTIVE DIRECTORS

**Mr. Sue Ka Lok ("Mr. Sue"),** *Chief Executive Officer*

Aged 53, joined the Group in November 2014 and was appointed as an Executive Director in December 2014. He was the Company Secretary until May 2017 and was appointed the Chief Executive Officer in January 2018. Mr. Sue is the Chairman of the Executive Committee and the Investment & Credit Committee. He is also a director of certain subsidiaries of the Company. Mr. Sue holds a Bachelor of Economics degree from The University of Sydney in Australia and a Master of Science in Finance degree from the City University of Hong Kong. Mr. Sue is a fellow of the Hong Kong Institute of Certified Public Accountants, a certified practising accountant of the CPA Australia, a fellow of the Hong Kong Securities and Investment Institute, and a fellow and Chartered Governance Professional of both The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators. He has extensive experience in corporate management, finance, accounting and company secretarial practice. Mr. Sue is an executive director of EPI (Holdings) Limited (HKEX stock code: 689), PT International Development Corporation Limited (HKEX stock code: 372) and PYI Corporation Limited (HKEX stock code: 498); a non-executive director of Birmingham Sports Holdings Limited (HKEX stock code: 2309); and a non-executive director and the chairman of Courage Investment Group Limited ("Courage Investment") (HKEX stock code: 1145). All the aforementioned companies are listed on the Main Board of the Stock Exchange and with Courage Investment is also listed on the Singapore Exchange Securities Trading Limited.

# Biographical Details of Directors

## EXECUTIVE DIRECTORS (continued)

**Ms. Lee Chun Yeung, Catherine ("Ms. Lee")**

Aged 50, joined the Group in September 2014 and was appointed as an Executive Director in February 2015. Ms. Lee is a member of the Executive Committee and the Investment & Credit Committee. She is also a director of certain subsidiaries of the Company. Ms. Lee holds a Bachelor of Arts degree from Guangdong University of Foreign Studies (formerly known as Guangzhou Institute of Foreign Languages) and a Master of Business Administration degree from the University of South Australia. She has extensive experience in international trading of metal minerals and commodities. Ms. Lee had worked as an economist in a major commercial bank and a senior executive in a state-owned trading group in the PRC.

**Mr. Chow Kam Wah ("Mr. Chow")**

Aged 56, joined the Company as an Executive Director in July 2007. Mr. Chow is a member of the Executive Committee and the Investment & Credit Committee. He is also a director of certain subsidiaries of the Company. Mr. Chow holds a master's degree in accountancy from The Hong Kong Polytechnic University. He has over 15 years of managerial experience in finance and accounting. Mr. Chow is a certified practising accountant of the CPA Australia.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Ms. Ma Yin Fan ("Ms. Ma")**

Aged 55, joined the Company as an Independent Non-executive Director in September 2007. Ms. Ma is the Chairlady of the Audit Committee and a member of the Remuneration Committee and the Nomination Committee. Ms. Ma obtained a bachelor's degree with honours in accounting from Middlesex University in the United Kingdom. She is also awarded the Master of Business Administration and Master in Professional Accounting degree from Heriot-Watt University in the United Kingdom and The Hong Kong Polytechnic University respectively. Ms. Ma is a CPA (Practising) in Hong Kong and has been working in the auditing, accounting and taxation areas with more than 20 years of professional experience. She is the principal of Messrs. Ma Yin Fan & Company CPAs. Ms. Ma is a fellow of the Hong Kong Institute of Certified Public Accountants, the Institute of Chartered Accountants in the England and Wales, The Taxation Institute of Hong Kong, the Association of Chartered Certified Accountants, and a fellow and Chartered Governance Professional of both The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators. She is also a Certified Tax Advisor in Hong Kong. Ms. Ma is an independent non-executive director of CST Group Limited (HKEX stock code: 985) and Grand Investment International Ltd. (HKEX stock code: 1160). All the aforementioned companies are listed on the Main Board of the Stock Exchange.

## INDEPENDENT NON-EXECUTIVE DIRECTORS (continued)

**Mr. Chow Yu Chun, Alexander ("Mr. Chow")**

Aged 72, joined the Company as an Independent Non-executive Director in March 2011. Mr. Chow is the Chairman of the Remuneration Committee and a member of the Audit Committee. He has over 35 years of experience in commercial, financial and investment management in Hong Kong and Mainland China. Mr. Chow is an independent non-executive director of Playmates Toys Limited (HKEX stock code: 869), Symphony Holdings Limited (HKEX stock code: 1223) and Top Form International Limited (HKEX stock code: 333). All the aforementioned companies are listed on the Main Board of the Stock Exchange. Mr. Chow is also an independent non-executive director of Aquis Entertainment Limited (ASX stock code: AQS), a company listed on the Australian Securities Exchange Limited.

**Mr. Leung Hoi Ying ("Mr. Leung")**

Aged 68, joined the Company as an Independent Non-executive Director in September 2007. Mr. Leung is a member of the Audit Committee, the Remuneration Committee and the Nomination Committee. Mr. Leung graduated from Guangdong Foreign Trade School in the PRC. He has over 15 years of experience in the trading business and business development. Mr. Leung is an independent non-executive director of CST Group Limited (HKEX stock code: 985), a company listed on the Main Board of the Stock Exchange.

# Report of the Directors

The Directors are pleased to present their report and the audited consolidated financial statements of the Company for the year ended 31 December 2018.

## PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Company acts as an investment holding company. The principal activities of its principal subsidiaries are set out in Note 41 to the consolidated financial statements.

Further discussion and analysis of the Group's activities as required by Schedule 5 to the Hong Kong Companies Ordinance, including a discussion of the principal risks and uncertainties facing the Group, particulars of important events affecting the Group that have occurred since the end of the financial year and an indication of likely future developments in the Group's businesses, can be found in the "Chairman's Statement" and "Management Discussion and Analysis" sections set out on pages 4 to 20 of this annual report. In addition, discussions on the Group's environmental policies and performance are contained in the Environmental, Social and Governance Report on pages 40 to 47 of this annual report.

## RESULTS

The results of the Group for the year ended 31 December 2018 are set out in the consolidated statement of profit or loss and other comprehensive income on page 54.

## FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2018 (2017: nil) and intends to retain the profit earned for the year for future business development of the Group.

## FIVE-YEAR FINANCIAL SUMMARY

A summary of the published results and assets and liabilities of the Group for the last five financial years, as extracted from the audited consolidated financial statements of the Company, is set out on page 140. This summary does not form part of the audited consolidated financial statements.

## PROPERTY, PLANT AND EQUIPMENT

Details of movement in the property, plant and equipment of the Group during the year are set out in Note 17 to the consolidated financial statements.

## DONATIONS

There is no charitable donation made by the Group during the year ended 31 December 2018.

## SHARE CAPITAL

Details of movements in the Company's share capital during the year are set out in Note 32 to the consolidated financial statements.

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

During the year ended 31 December 2018, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

## DISTRIBUTABLE RESERVE

At 31 December 2018, the Company had retained profits of HK$5,245,000 available for distribution to shareholders.

## MAJOR CUSTOMERS AND SUPPLIERS

During the year, revenue from the Group's five largest customers accounted for approximately 74% of the revenue for the year and revenue from the largest customer accounted for approximately 28%. Purchases from the Group's five largest suppliers accounted for approximately 91% of the total purchases for the year and purchases from the largest supplier accounted for approximately 41%.

None of the directors or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued shares) had any beneficial interest in the Group's five largest customers or suppliers during the year.

## DIRECTORS

The directors of the Company during the year and up to the date of this report were:

### Non-executive Director:

Dr. Or Ching Fai (re-designated on 1 April 2018)

### Executive Directors:

Mr. Sue Ka Lok
Ms. Lee Chun Yeung, Catherine
Mr. Chow Kam Wah

### Independent Non-executive Directors:

Ms. Ma Yin Fan
Mr. Chow Yu Chun, Alexander
Mr. Leung Hoi Ying

In accordance with Article 116 of the Company's Articles of Association, Mr. Sue Ka Lok, Mr. Chow Kam Wah and Ms. Ma Yin Fan will retire at the forthcoming annual general meeting of the Company (the "2019 AGM") by rotation and, being eligible, will offer themselves for re-election in the 2019 AGM.

## DIRECTORS OF SUBSIDIARIES

During the year and up to the date of this report, Dr. Or Ching Fai, Mr. Sue Ka Lok, Ms. Lee Chun Yeung, Catherine and Mr. Chow Kam Wah are also directors in certain subsidiaries of the Company. Other directors of the subsidiaries of the Company during the year and up to the date of this report include Mr. Hui Richard Rui, Mr. Zhu Kai and Mr. Leung Wing Shing.

## PERMITTED INDEMNITY PROVISION

Pursuant to the Company's Articles of Association, subject to the statutes, every director shall be indemnified out of the assets of the Company against all losses and liabilities which he/she may sustain or incur in or about the execution of his/her office or otherwise in relation thereto. The Company has arranged appropriate directors' and officers' liability insurance coverage for the directors and other officers of the Company during the year.

## DIRECTORS' SERVICE CONTRACTS

None of the directors being proposed for re-election at the 2019 AGM has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

## DIRECTORS' REMUNERATION

Details of the directors' remuneration are set out in Note 13 to the consolidated financial statements.

## UPDATES ON DIRECTORS' INFORMATION

The following is updated information of directors of the Company required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules:

1. Dr. Or Ching Fai ceased to act as an independent non-executive director of Industrial and Commercial Bank of China Limited (HKEX stock code: 1398) with effect from 31 October 2018 due to expiration of his term of office.

2. Mr. Chow Yu Chun, Alexander resigned as a member of the Hong Kong Institute of Certified Public Accountants with effect from 1 January 2019.

3. The director's remuneration of Mr. Sue Ka Lok has been increased to HK$2,145,000 per annum under his service contract with a subsidiary of the Company with effect from 1 March 2019. The revised remuneration was recommended by the Remuneration Committee and approved by the Board.

4. The director's remuneration of Ms. Lee Chun Yeung, Catherine has been increased to HK$1,144,000 per annum under her service contract with a subsidiary of the Company with effect from 1 March 2019. The revised remuneration was recommended by the Remuneration Committee and approved by the Board.

5. The director's remuneration of Mr. Chow Kam Wah has been increased to HK$1,235,000 per annum under his service contract with the Company with effect from 1 March 2019. The revised remuneration was recommended by the Remuneration Committee and approved by the Board.

## DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save for the related party disclosures as disclosed in Note 39 to the consolidated financial statements, no other transactions, arrangements or contracts of significance to which the Company or any of its subsidiaries was a party and in which a Director or an entity connected with a Director has or had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

## DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

At 31 December 2018, none of the directors or chief executive of the Company had registered an interest or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) that was required to be recorded pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save for the share option scheme of the Company disclosed in Note 34 to the consolidated financial statements, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the directors of the Company or their spouse or minor children had any rights to subscribe for the securities of the Company, or had exercised any such rights during the year.

## SHARE OPTION SCHEME

Details of the share option scheme of the Company are set out in Note 34 to the consolidated financial statements.

## INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

At 31 December 2018, the following interests of more than 5% of the issued shares of the Company were recorded in the register of interests required to be kept by the Company pursuant to section 336 of the SFO.

**Long positions in the shares of the Company:**

| Name of shareholder | Capacity and nature of interest | Number of shares held | Approximate percentage of the Company's issued shares |
|---|---|---|---|
| Mr. Suen Cho Hung, Paul ("Mr. Suen") | Interest of controlled corporation | 1,680,000,000 *(Note)* | 9.89% |
| Pioneer Success Development Limited ("Pioneer Success") | Beneficial owner | 1,680,000,000 *(Note)* | 9.89% |

*Note:* These shares were held by Pioneer Success, which in turn was wholly owned by Mr. Suen. Mr. Suen was the sole director of Pioneer Success. Accordingly, Mr. Suen and Pioneer Success were deemed to be interested in 1,680,000,000 shares of the Company under the SFO.

The interests of Mr. Suen and Pioneer Success in 1,680,000,000 shares of the Company referred to above related to the same parcel of shares.

Save as disclosed above, the Company had not been notified of any other relevant interests or short positions in the shares and underlying shares of the Company at 31 December 2018 as required pursuant to section 336 of the SFO.

## CONNECTED TRANSACTIONS

The related party disclosures as disclosed in Note 39 to the consolidated financial statements fall under the scope of "Connected Transactions" or "Continuing Connected Transactions" under Chapter 14A of the Listing Rules but are exempted from reporting, annual review, announcement or independent shareholders' approval requirements.

## REMUNERATION POLICY

The Group remunerates its employees based on their competence, performance, experience and prevailing market terms. Other employee benefits include provident fund scheme, medical insurance, share option scheme as well as discretionary bonus.

## EQUITY-LINKED AGREEMENTS

Save for the share option scheme of the Company as disclosed in Note 34 to the consolidated financial statements, no equity-linked agreements were entered into by the Group, or existed during the year.

## MANAGEMENT CONTRACTS

No contract concerning the management and administration of the whole or any substantial part of any business of the Company was entered into or existed during the year.

## 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 shares is held by the public at the date of this report.

## AUDIT COMMITTEE

The audited consolidated financial statements of the Company for the year ended 31 December 2018 have been reviewed by the Audit Committee and duly approved by the Board under the recommendation of the Audit Committee.

## AUDITOR

The consolidated financial statements of the Company for the year ended 31 December 2018 have been audited by Deloitte Touche Tohmatsu.

A resolution will be proposed at the 2019 AGM to re-appoint Deloitte Touche Tohmatsu as the auditor of the Company.

On behalf of the Board

**Dr. Or Ching Fai**
*Chairman*

Hong Kong, 27 March 2019

# Corporate Governance Report

The Company has recognised the importance of transparency and accountability, and believes that shareholders can benefit from good corporate governance. The Company aims to achieve good standard of corporate governance.

## CORPORATE GOVERNANCE

The Company has complied with all the applicable provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules for the year ended 31 December 2018, except for the following deviation with reason as explained:

### Chairman and chief executive

*Code Provision A.2.1*

Code Provision A.2.1 of the CG Code requires the roles of the chairman and chief executive should be separate and should not be performed by the same individual.

*Deviation*

There had been a deviation from the Code Provision A.2.1 since Dr. Or Ching Fai, presently a Non-executive Director of the Company, had served both roles of the chairman and the chief executive officer until 18 January 2018. However, the aforesaid deviation was rectified and the Code Provision A.2.1 has been complied with following the step down of Dr. Or Ching Fai from his position as Chief Executive Officer and the appointment of Mr. Sue Ka Lok, an Executive Director of the Company, as the Chief Executive Officer on 18 January 2018.

## DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code as its own code of conduct regarding securities transactions by directors of the Company. Having made specific enquiry with the directors, all of them confirmed that they have complied with the required standards set out in the Model Code during the year ended 31 December 2018.

## BOARD OF DIRECTORS

The Board formulates overall strategy of the Group, monitors its financial performance and maintains effective oversight over the management. The Board members are fully committed to their roles and have acted in good faith to maximize the shareholders' value in the long-run, and have aligned the Group's goal and directions with the prevailing economic and market conditions. Daily operations and administration are delegated to the management.

The Board met regularly throughout the year to discuss the overall strategy as well as the operation and financial performance of the Group. The directors are kept informed on timely basis of major changes that may affect the Group's business, including relevant rules and regulations. The directors can, upon reasonable request, seek independent professional advice in appropriate circumstances, at the Company's expenses. The Board shall resolve to provide separate appropriate independent professional advice to the directors to assist the relevant directors to discharge their duties.

At 27 March 2019, the date of this annual report, the Board comprises seven directors, one is Non-executive Director, namely Dr. Or Ching Fai, the Chairman of the Company (the "Chairman"), three of which are Executive Directors, namely Mr. Sue Ka Lok, the Chief Executive Officer of the Company (the "CEO"), Ms. Lee Chun Yeung, Catherine and Mr. Chow Kam Wah, and three are Independent Non-executive Directors, namely Ms. Ma Yin Fan ("Ms. Ma"), Mr. Chow Yu Chun, Alexander and Mr. Leung Hoi Ying ("Mr. Leung"). The directors are considered to have a balance of skill and experience appropriate for the requirements of the business of the Company. The Company has received from each of the independent non-executive directors an annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all the independent non-executive directors are independent in accordance with the independence guidelines set out in the Listing Rules. Biographical details of the directors are set out under the section headed "Biographical Details of Directors" on pages 21 to 23 of this annual report.

Both Ms. Ma and Mr. Leung is an independent non-executive director of CST Group Limited (HKEX stock code: 985). Save for the aforesaid, there is no other financial, business, family or other material/relevant relationship between the Chairman and the CEO and among members of the Board.

The Company will provide a comprehensive, formal and tailored induction to each newly appointed director on his/her first appointment in order to enable him/her to have appropriate understanding of the business and operations of the Company and that he/she is fully aware of his/her 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 on 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.

## BOARD OF DIRECTORS (continued)

The Directors have participated in continuous professional development by attending seminars, in-house briefings or reading materials on the related areas to develop and refresh their knowledge and skills. During the year ended 31 December 2018, all the Directors (including Dr. Or Ching Fai (Chairman), Mr. Sue Ka Lok (Chief Executive Officer), Ms. Lee Chun Yeung, Catherine, Mr. Chow Kam Wah, Ms. Ma Yin Fan, Mr. Chow Yu Chun, Alexander and Mr. Leung Hoi Ying) have complied with Code Provision A.6.5 of the CG Code and have provided the Company with their respective training records pursuant to the CG Code.

During the year ended 31 December 2018, four regular Board meetings and annual general meeting of the Company (the "2018 AGM") were held and the attendance of each director is set out as follows:

| | Number of attendance | |
|---|---|---|
| | **Board Meetings** | **2018 AGM** |
| **Non-executive Director** | | |
| Dr. Or Ching Fai (re-designated on 1 April 2018) | 4/4 | 1/1 |
| **Executive Directors** | | |
| Mr. Sue Ka Lok | 4/4 | 1/1 |
| Ms. Lee Chun Yeung, Catherine | 4/4 | 1/1 |
| Mr. Chow Kam Wah | 4/4 | 1/1 |
| **Independent Non-executive Directors** | | |
| Ms. Ma Yin Fan | 4/4 | 1/1 |
| Mr. Chow Yu Chun, Alexander | 4/4 | 1/1 |
| Mr. Leung Hoi Ying | 4/4 | 0/1 |

## CHAIRMAN AND CHIEF EXECUTIVE

Before the appointment of Mr. Sue Ka Lok, an Executive Director of the Company, as the CEO effective on 18 January 2018, the roles of chairman and chief executive officer were taken up by Dr. Or Ching Fai, presently a Non-executive Director of the Company, who was responsible for the overall strategic planning and business development of the Group as well as the management of the Board and the day-to-day management of the Group's business.

However, since 18 January 2018, the Group adopts a dual leadership structure in which the role of the Chairman is separated from that of the CEO. The Chairman is responsible for overseeing all Board functions, while the executive directors and senior management are under the leadership of the CEO to oversee the day-to-day operations of the Group and implement the strategies and policies approved by the Board.

At the date of this annual report, the position of the Chairman of the Board is held by Dr. Or Ching Fai and the position of the CEO is held by Mr. Sue Ka Lok.

## TERM OF APPOINTMENT OF NON-EXECUTIVE DIRECTORS

According to the CG Code, the non-executive directors should be appointed for a specific term and subject to re-election. All the Non-executive Directors (including the Independent Non-executive Directors) are appointed for a term of two years and shall determine upon expiry subject to renewal by mutual agreement prior to the expiry of the term. All the Non-executive Directors (including the Independent Non-executive Directors) are subject to retirement by rotation and re-election at least once every three years at the annual general meetings of the Company as governed by the Company's Articles of Association.

## REMUNERATION COMMITTEE

The Remuneration Committee has specific written terms of reference that is in compliance with the CG Code. At the date of this annual report, the Remuneration Committee comprises three Independent Non-executive Directors, namely Ms. Ma Yin Fan, Mr. Chow Yu Chun, Alexander and Mr. Leung Hoi Ying. Mr. Chow Yu Chun, Alexander is the Chairman of the Remuneration Committee.

The Remuneration Committee is mainly responsible for formulating the remuneration policy, reviewing and recommending to the Board the annual remuneration policy and the remuneration of the directors. The overriding objective of the remuneration policy is to ensure that the Group is able to attract, retain and motivate a high-caliber team which is essential to the success of the Group. The full terms of reference are available on the Company's website and the Stock Exchange's website.

The Remuneration Committee met two times during the year ended 31 December 2018 to review and make recommendations to the Board on the discretionary bonus for executive directors and remuneration packages for directors, and the letter of appointment for a non-executive director. The attendance of each member is set out as follows:

| Members | Number of attendance |
|---|---|
| Mr. Chow Yu Chun, Alexander | 2/2 |
| Ms. Ma Yin Fan | 2/2 |
| Mr. Leung Hoi Ying | 2/2 |

## NOMINATION COMMITTEE

The Nomination Committee has specific written terms of reference that is in compliance with the CG Code. At the date of this annual report, the Nomination Committee comprises three members, including one Non-executive Director, namely Dr. Or Ching Fai, and two Independent Non-executive Directors, namely Ms. Ma Yin Fan and Mr. Leung Hoi Ying. Dr. Or Ching Fai is the Chairman of the Nomination Committee.

The Nomination Committee is mainly responsible for identifying potential directors and making recommendations to the Board on the appointment or re-appointment of directors of the Company. Potential new directors are selected on the basis of their qualifications, skills and experience that he/she could add value to the management through his/her contributions in the relevant strategic business areas. The full terms of reference are available on the Company's website and the Stock Exchange's website.

The Nomination Committee met two times during the year ended 31 December 2018 to review the board diversity policy of the Company (the "Board Diversity Policy"), review the independence of independent non-executive directors, review the structure, size and composition of the Board; and review and make recommendation to the Board on the appointment of the chief executive officer and re-election of directors. The attendance of each member is set out as follows:

| Members | Number of attendance |
|---|---|
| Dr. Or Ching Fai | 2/2 |
| Ms. Ma Yin Fan | 2/2 |
| Mr. Leung Hoi Ying | 2/2 |

The Company recognises the benefits of having a diverse Board to enhance the quality of its performance and adopted the Board Diversity Policy on 19 July 2013. The Board Diversity Policy sets out that in determining the optimum composition of the Board, differences in skills, regional and industry experience, background, race, gender and other qualities of directors shall be considered. All Board appointments are made on merits, in the context of skills and experience the Board as a whole requires, with due regard for the benefits of diversity on the Board, and the Nomination Committee shall review and assess the Board composition and its effectiveness on an annual basis. When there is vacancy on Board, the Nomination Committee will recommend suitable candidates for appointment to the Board on merits, based on the terms of reference of the Nomination Committee, with due regard to the Company's own circumstances.

The Nomination Committee had reviewed the diversity of the Board of the Company during the year ended 31 December 2018 and will review the Board Diversity Policy from time to time to ensure that the policy will be implemented effectively.

## AUDITOR AND AUDITOR'S REMUNERATION

The statement of the external auditor of the Company about their responsibilities on the Company's consolidated financial statements for the year ended 31 December 2018 is set out in the "Independent Auditor's Report" on pages 48 to 53 of this annual report.

For the year ended 31 December 2018, remuneration payable to the Company's auditor, Deloitte Touche Tohmatsu, for the provision of audit services was HK$1,850,000. During the year, HK$300,000 was paid as remuneration to Deloitte Touche Tohmatsu for performing a review on the Company's condensed consolidated financial statements for the six months ended 30 June 2018.

## AUDIT COMMITTEE

The Audit Committee has specific written terms of reference that is in compliance with the CG Code. At the date of this annual report, the Audit Committee comprises three Independent Non-executive Directors, namely Ms. Ma Yin Fan, Mr. Chow Yu Chun, Alexander and Mr. Leung Hoi Ying, who among themselves possess a wealth of management experience in the accounting profession and in commercial fields. Ms. Ma Yin Fan is the Chairlady of the Audit Committee.

The Audit Committee is mainly responsible for reviewing financial statements of the Company, discussing the risk management and internal control of the Group and meeting with the auditor of the Company. Any findings and recommendations of the Audit Committee will be submitted to the Board for consideration.

The Audit Committee is authorised by the Board to investigate any activity within its terms of reference. It is authorised to seek any information it requires from any employee. It is also authorised to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers necessary. The full terms of reference are available on the Company's website and the Stock Exchange's website.

The Audit Committee met two times during the year ended 31 December 2018 and the attendance of each member is set out as follows:

| Members | Number of attendance |
|---|---|
| Ms. Ma Yin Fan | 2/2 |
| Mr. Chow Yu Chun, Alexander | 2/2 |
| Mr. Leung Hoi Ying | 2/2 |

# Corporate Governance Report

## AUDIT COMMITTEE (continued)

The following is a summary of work performed by the Audit Committee during the year:

1. reviewed and discussed the audited consolidated financial statements of the Company for the year ended 31 December 2017 and recommended to the Board for approval;

2. reviewed and discussed the unaudited condensed consolidated financial statements of the Company for the six months ended 30 June 2018 and recommended to the Board for approval;

3. reviewed and discussed with the management and the auditor of the Company the accounting policies and practices which may affect the Group and the scope of the audit;

4. reviewed reports from the auditor of the Company regarding their audit on the Company's consolidated financial statements for the year ended 31 December 2017 and their review on the Company's condensed consolidated financial statements for the six months ended 30 June 2018;

5. reviewed the effectiveness of the risk management and internal control systems of the Group; and

6. reviewed and approved the remuneration and the terms of engagement of the Company's auditor; and reviewed and made recommendations to the Board on the re-appointment of the Company's auditor.

## EXECUTIVE COMMITTEE

The Executive Committee has been established since 31 March 2016. At the date of this annual report, the Executive Committee comprises three Executive Directors, namely Mr. Sue Ka Lok, Ms. Lee Chun Yeung, Catherine and Mr. Chow Kam Wah. Mr. Sue Ka Lok is the Chairman of the Executive Committee. The Executive Committee is mainly responsible for overseeing the management and the administrative functions of the day-to-day operations of the Group and handling such other matters as delegated by the Board from time to time. The full terms of reference are available on the Company's website and the Stock Exchange's website. The Executive Committee will meet as and when necessary to discuss the operating affairs of the Group.

## INVESTMENT & CREDIT COMMITTEE

The Investment & Credit Committee has been established since 31 March 2016. At the date of this annual report, the Investment & Credit Committee comprises three Executive Directors, namely Mr. Sue Ka Lok, Ms. Lee Chun Yeung, Catherine and Mr. Chow Kam Wah. Mr. Sue Ka Lok is the Chairman of the Investment & Credit Committee. The Investment & Credit Committee is mainly responsible for overseeing and monitoring the activities of the securities investment operation and the money lending operation of the Group and handling such other matters relating to securities investments and money lending as delegated by the Board from time to time. The full terms of reference are available on the Company's website and the Stock Exchange's website. The Investment & Credit Committee will meet as and when necessary to discuss the activities of the securities investments and money lending of the Group.

## DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing the financial statements for the year ended 31 December 2018, which give a true and fair view of the state of affairs of the Company and of the Group at that date and of the Group's results and cash flows for the year then ended and are properly prepared on the going concern basis in accordance with the statutory requirements and applicable accounting standards.

## CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for determining the policy for the corporate governance of the Company and performing the corporate governance duties as below:

1. to develop and review the Group's policies and practices on corporate governance and make recommendations;

2. to review and monitor the training and continuous professional development of directors and senior management;

3. to review and monitor the Group's policies and practices on compliance with all legal and regulatory requirements;

4. to develop, review and monitor the code of conduct and compliance manual applicable to the employees and directors of the Group; and

5. to review the Group's compliance with the CG Code and disclosure requirements in the corporate governance report.

## RISK MANAGEMENT AND INTERNAL CONTROL

The Board has overall responsibilities for maintaining sound and effective risk management and internal control and reviewing their effectiveness to safeguard the shareholders' interests and the Group's assets. The risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable but not absolute assurance against material misstatement or loss. The review covers financial, operational and compliance controls of the selected key operations of the Group.

During the year, the Company has taken risk management as a core part of its business activities and operations. The Company is taking steps to build a comprehensive risk management system that is aligned with the strategies and operations of the Company by standardizing its risk management procedures, adopting qualitative and quantitative measures to identify, evaluate and mitigate the identified risks. Furthermore, the Company has increased the level of synergy between risk management and internal audit by identifying the potential risks by reviewing the internal control systems, policies and/or procedures relating to the Group's business operations so as to promote the risk control capabilities.

## RISK MANAGEMENT AND INTERNAL CONTROL (continued)

During the year, the Group has engaged an independent professional firm to provide risk management and internal controls assessment services to assist the Board and the Audit Committee to assess the risk management and internal control systems of the Group. The review included interviews with relevant management and key process owners and preforming walkthrough tests to identify the major risk and significant deficiencies, and making recommendations for improving the internal control systems to the Audit Committee for further approval. The Audit Committee, together with the Board, have reviewed, considered and discussed the findings and recommendations of the Internal Controls Assessment Report prepared by the independent professional firm for the year ended 31 December 2018 (the "Report"). Having taken the recommendations in the Report into consideration, the Group will continue to improve its internal management and control systems. In addition, the independent professional firm has also performed a follow-up assessment on the findings as identified in the Internal Controls Assessment Report for the year ended 31 December 2017 to assess the remediation status.

The Board has also considered the adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting and financial reporting function during the year under review. The Board is not aware of any significant internal control and risk management weaknesses or inconsistencies with risk management policies, and considers the existing internal control and risk management systems effective and adequate for the year ended 31 December 2018. The Company has complied with the relevant code provisions of the CG Code relating to risk management and internal control.

## HANDLING AND DISSEMINATION OF INSIDE INFORMATION

The Company has put in place a policy on handling and dissemination of inside information which sets out the procedures and internal controls for handling and dissemination of inside information in a timely manner in such a way to avoid placing any person in a privileged dealing position. The inside information policy also provides guidelines to employees of the Group to ensure proper safeguards exists to prevent the Company from breaching the statutory and listing rule disclosure requirements. The Company has appropriate internal control and reporting systems to identify and assess potential inside information. Dissemination of inside information of the Company shall be conducted by publishing the relevant information on the websites of the Company and the Stock Exchange, according to the requirements of the Listing Rules.

## COMPANY SECRETARY

Following the resignation of Ms. Chan Yuk Yee as the Company Secretary, Ms. Leung Siu King ("Ms. Leung") was appointed the Company Secretary on 16 May 2018. Ms. Leung is an associate of both The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators. Ms. Leung has taken no less than 15 hours of the relevant professional training during the year ended 31 December 2018.

## SHAREHOLDER RIGHTS AND INVESTOR RELATIONS

The annual general meeting (the "AGM") of the Company provide a forum for communication between shareholders and the Board. The notice of the AGM is despatched to all shareholders at least 20 clear business days prior to such AGM. The chairmen of all Board committees are invited to attend the AGM. The chairman of the Board and the chairmen of all the Board committees, or in their absence, other members of the respective committees, are available to answer questions at the AGM. The auditor of the Company is also invited to attend the AGM to answer questions about the conduct of the audit, the preparation and content of the auditor's report, the accounting policies and auditor's independence.

Under Section 566 of the Hong Kong Companies Ordinance, shareholders representing at least 5% of the total voting rights of all the shareholders having a right to vote at the general meetings are entitled to send a request to the Company to convene a general meeting. Such requisition must state the general nature of the business to be dealt with at the meeting and may include the text of a resolution that may properly be moved and is intended to be moved at the meeting. The request may be sent to the Company in hard copy form or in electronic form and must be authenticated by the shareholder(s) making it and deposited at the registered office of the Company. Besides, in relation to an annual general meeting which a company is required to hold, Section 615 of the Hong Kong Companies Ordinance provide that shareholders representing at least 2.5% of the total voting rights of all the shareholders having a right to vote on the resolution at the annual general meeting or at least 50 shareholders having a right to vote on the resolution at the annual general meeting, may request the Company to circulate a notice of the resolution for consideration at the annual general meeting, by sending a request, which must be authenticated by the shareholders making it, in a hard copy form or electronic form. Such request must be deposited at the registered office of the Company not later than six weeks before the relevant annual general meeting or if later, when the notice of annual general meeting is despatched.

As a channel to further promote effective communication, the Group maintains a website at http://www.cshldgs.com where the Company's annual and interim reports, notices, announcements and circulars are posted.

A printed copy of the Articles of Association of the Company has been published on the websites of the Company and the Stock Exchange. There had been no changes in the Company's constitutional documents during the year ended 31 December 2018.

Enquiries may be put to the Board through the Company Secretary at Rooms 3206–3210, 32nd Floor, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong.

## OVERVIEW

China Strategic Holdings Limited (hereinafter referred to as the "Company" or "we" or "our") is pleased to present our Environmental, Social and Governance (the "ESG") report, which summarised our ESG initiatives and accomplishments for the year ended 31 December 2018.

The Board has the overall responsibility for our ESG strategy and reporting in achieving green operations for sustainable development. The management is responsible for monitoring and managing ESG-related risks and the effectiveness of ESG management systems. In order to determine the ESG reporting scopes, we have discussed with various management personnel and listed out the key stakeholders to identify and assess relevant ESG issues to the Company. The summary of material ESG issues, which are covered in this report, are listed below.

## REPORT SCOPE AND BOUNDARIES

This report serves to provide details of the Company's ESG policies and initiatives of our business in investment in securities, trading, money lending and securities brokerage, which has been prepared and complied under the "comply or explain" provisions with reference to the ESG Reporting Guide as set out in Appendix 27 of the Listing Rules. With regard to corporate governance aspect, please refer to the Corporate Governance Report on pages 30 to 39. The source of data in preparing the ESG report is primarily based on our internal policies and documents as well as information provided by various key stakeholders.

## STAKEHOLDERS' ENGAGEMENT

Understanding and taking actions towards stakeholders' concerns and expectations is essential towards our sustainability development. We ensure various communication channels are set up so that comments and feedbacks from major stakeholders are effectively and timely addressed.

The following table shows the main expectations and concerns of the key stakeholders as identified by the Company, and the corresponding management response.

| Stakeholders | Expectations | Management Feedback |
|---|---|---|
| Customers | Integrity<br>High quality services | Ensuring contractual obligations are in place, and providing high quality services in order to satisfy customers. |
| Employees | Humanity<br>Health and safety<br>Career development<br>Labour rights | Paying attention to occupational health and safety, creating a comfortable working environment, encouraging employees to participate in continuous education and professional trainings to enhance competency, holding team building function, and setting up contractual obligations to protect labour rights. |

## STAKEHOLDERS' ENGAGEMENT (continued)

| Stakeholders | Expectations | Management Feedback |
|---|---|---|
| Shareholders | Return on investment<br>Interest protection<br>Information transparency<br>Operating risks management | Ensuring transparency and efficient communications through annual general meetings and regular announcements published in websites of the Stock Exchange and the Company. |
| Government | Abide to law<br>Fulfil tax obligation<br>Cooperation for mutual benefits | Upholding integrity and compliance in operations, paying tax on time in return contributing to the society. |
| Suppliers | Integrity | Ensuring contractual obligations are in place, performing supplier selection with due care. |

## ENVIRONMENTAL

With the growing concern for global climate changes, we believe that acknowledging our carbon footprints is our basic responsibility owed to the public. During the year, we are not aware of any non-compliance in relation to air and greenhouse gas emissions, discharge into water and land, and generation of hazardous and non-hazardous waste. The principal business activities of the Company do not have significant impact on the environment and natural resources. As the Company's businesses are carried out in office, our major environment impacts are the greenhouse gas emission generated by office electricity and fuel consumption of our cars and vessels. Therefore, our operation initiatives are to reduce the emission of carbon dioxide generated by our business activities. The Company encourages staff to adopt environmentally responsible behaviour and to raise awareness of environmental protection. As mentioned in the below sections, the Company has implemented various measures to reduce energy consumption, protect water resources and reduce waste.

### Emissions and energy consumption

Our vision focuses on eliminating excessive usage of resources. We continuously look for ways to reduce energy consumption in order to minimize the impact to the environment resulted from emissions. During the year, we directly consumed 47,841kg Carbon Dioxide Equivalent ($CO_{2e}$) of greenhouse gas emission. The Nitrogen Oxides (NOx), Particulate Matter (PM) and Sulphur Oxides (SOx) emitted by our cars and vessels accounted for 3,559g, 262g and 272g respectively. Our cars and vessels usage are mainly attributed to our business travels and activities with our customers.

# Environmental, Social and Governance Report

### Emissions and energy consumption (continued)

During the year, the greenhouse gas emission from the operation has been calculated and measured as follows:

| Scope 1 – Direct Emission | Gasoline Consumption (in liter) | Carbon Dioxide Equivalent Emission (in kg) |
|---|---|---|
| Company's cars | 11,580 | 31,356 |
| Company's vessels | 6,300 | 16,485 |
| **Total** | 17,880 | 47,841 |
| **Total energy intensity (per employee)** | 325 | 870 |

| Scope 2 – Indirect Emission | Electricity Consumption (in kWh) | Carbon Dioxide Equivalent Emission (in kg) |
|---|---|---|
| Total acquired electricity | 63,186 | 49,917 |
| **Total energy intensity (per employee)** | 1,149 | 908 |

We adopt energy conservation approach in the office, such as keeping the air-conditioned office at around 25 degrees Celsius, switching off unused lightings and air-conditioners when idle, and reducing the stand-by time of printers and other office equipment, and introduce water savings policies to the employees. On the other hand, we select hardware that come with energy efficiency labels under the Mandatory Energy Efficiency Labelling Scheme by the Electrical and Mechanical Services Department, such as refrigerators and lamps, if possible. We also encourage our employees to hold video conference call, if feasible, to avoid carbon footprints contributed by means of transportation.

### Water consumption

We do not face any water supply problem as it is provided by municipal to the office building. On the other hand, we order our drinking water from external supplier monthly and hence no electricity is generated associated with water consumption. During the year, we have consumed a total of 3,510 liters of water.

Although we do not have full controls over the water supply, we recognise the scarcity of resources the environment could offer and we always encourage our staff to cherish water usage, such as reducing unnecessary water consumption in toilets and pantries.

### Waste reduction

As a service company instead of manufacturing with production, our operations do not generate any hazardous waste and use of packaging materials. Instead, the majority of non-hazardous waste we produced are paper and our daily garbage. During the year, we used a total of 264 reams, 0.7 tonnes of paper. In addition to our energy conservation practices, we have put in measures to encourage our staff in reducing waste production, such as minimize producing wastes by recycling plastic bottles, paper and ink cartridges, encourage double-sided printing or copying, making use of e-statements or scanning copies, advocating “green office” concepts in the office by encouraging staff to think before using paper, and reducing the production of non-hazardous solid wastes or unrecyclable materials.

## SOCIAL

It is recognised that building a loyal and competent workforce is the key to long-term success of the Company.

### Employment and labour practices

*Employment*

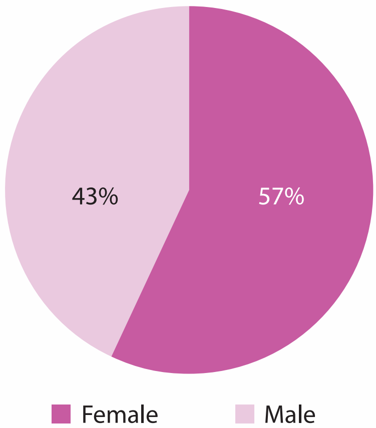
Our employees are our biggest asset and we value and reward them accordingly. We provide an inclusive environment for our employees to work with, embracing new ideas and always looking for changes to strive for a better and efficient business. We place great respect to our employees from different cultures. Diversity is key to the success of our business.

We are a fair opportunity employer and has established fair treatment policy to govern equal opportunity for employment to all individuals, regardless of our ethnic group, gender, religious affiliation, or other protected status or classification. The policy applies to all phases of the employment relationship, including but not limited to, hiring, promoting and terminating employees.

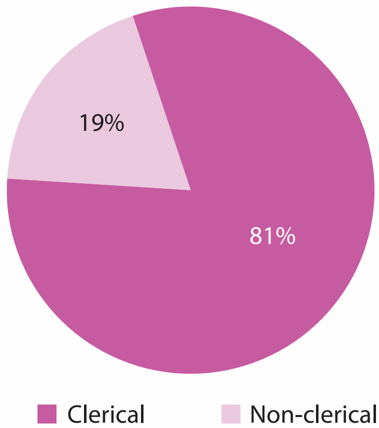
## Employment and labour practices (continued)

*Workforce*

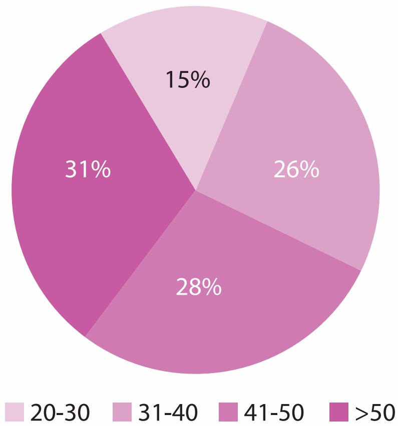
**Percentage of Employees by Gender 2018**




**Percentage of Employees by Employment Type 2018**




**Percentage of Employees by Age Group 2018**




*Working hours, promotion, termination, compensation and other benefits*

At 31 December 2018, we had a total of 55 employees located in Hong Kong. Termination of employees was arranged in accordance with the Employment Ordinance (Chapter 57 of the Laws of Hong Kong) (the "Employment Ordinance") and other requirements. During the year, only 2 staff left the Company. The turnover rate is relatively low, reflecting a high level of employee satisfaction and engagement with the Company.

We value our employees' health and therefore work-life balance is vital to the Company. We adopt a five-day work week for work-life balance. Other benefits include causal Friday, subsidy for related training course, insurance packages, maternity and compensation leave, education and traveling allowance in addition to Mandatory Provident Fund Scheme, sick leave and annual leave. Bonus and salaries increment would be fairly assessed based on a number of criteria (working experience, seniority, contribution to the Company, etc.) within the annual performance appraisal.

We will continue to optimise the annual appraisal, remuneration and welfare procedures, improve the office environment and organise different recreational activities to boost staff satisfaction and nurture their sense of belonging.

## Employment and labour practices (continued)

### *Health and safety*

Our operation are mostly carried out in an office setting and no labour intensive work is involved. The occupational health and safety risk is deemed relatively low. That being said, however, one of the core values of the Company is to protect and promote the health, safety and well-being of the individual in the working environment. We have been continuously taking care of employees' health and safety as their priority, which creates a comfortable and hassle-free environment.

In terms of daily operations, we put up posters/leaflets in the office area to raise the awareness of office or personal safety, such as proper postures to be maintained and exercise for using computer for long hours. During the reporting period, no case of injury was reported. In case of injuries/incidents incurred, that would be properly recorded and investigated to prevent from future occurrence. We have established Business Continuity Plan (BCP) for macro events such as fire, electrical failure or flood and water damage to specify steps to be taken during these emergencies. We possess insurance policy that is in compliance with the Employment Ordinance and at common law for injuries at work for every employee. The insurance has been extended to cover against loss of or damage to the office contents, business interruption, money, and public liability within the office premises.

### *Development and training*

We made great efforts in helping employee's personal development and growth. We provide training materials and encourage our directors, senior executives to participate in external professional trainings, which complied with the Code Provision A.6.5 of the Corporate Governance Code as set out in Appendix 14 of the Listing Rules.

As a professional securities brokerage company that requires extensive knowledge in the securities brokerage area, we provide trainings in the areas including securities trading, securities brokerage, and financial analysis for relevant staff. In addition, updates of regulatory requirements and standards have been made available to them.

For on-board training, the department head would provide handouts and on-board guidance to new joiners. If new director joins, a guidebook as set forth by the Hong Kong Institute of Directors would be distributed. Regularly, materials such as circulars, consultation papers issued by the Stock Exchange would be made available for staff to circulate and learn more about it. In addition to basic business knowledge job training provided to the staff, many of our employees are members of certifications which require professional trainings to be done annually.

We will continuously encourage and provide various trainings at our availability to meet the expectations and necessities of our employees.

## Employment and labour practices (continued)

### *Labour standards*

We value human rights. Child or forced labour is strictly prohibited in accordance with the applicable laws and regulations. We conduct thorough background checks and reference checks during our hiring process to prevent this from happening. During 2018, we have complied with the Employment Ordinance and no person under 18 was employed in respect of child or forced labour. We also support human rights consistent with the United Nations Declaration of Human Rights and will consider carefully before trading with, or investing in, countries which are governed by regimes that do not adhere to the United Nations Declaration.

## Operating practices

### *Supply chain management*

We convey our standards and expectations in respect of environment issues and labour practices to our suppliers and business partners, with the expectation that they will uphold standards that are similar to our own.

Prior to stepping into contracting stage with our key business partners, we conduct assessment based on a variety of criteria, including attitude towards environmental and social issues, to evaluate the quality as well as moral standards of business partners and contractors. Further, management oversees business projects with due care in pursuit of mitigating any issues that contradict with our standards on environment and social issues.

### *Product responsibility*

Recalls, complaints received for service and products – We are proud of the high quality services provided to our customers. During the year, we did not receive any complaints on the services we provided.

Intellectual property right – We value our intangible assets as much as our tangibles. We protect our business against intellectual property theft by refusing the use of illegal software or anything without copyright/patents. We support the use of legal and intangible assets with trademarks while protecting ourselves from exposure to cyber security threats.

Quality assurance process – As a responsible service provider of our securities brokerage and money lending operations, we strike to maximize our customers' satisfaction. To ensure our quality and services provided and as required by the Securities and Futures Commission (the "SFC") for our security brokerage services, we keep our voice record over the telephone and documentation record for 6 months and 7 years respectively. A responsible officer would be in charge of overviewing the quality assurance process. For our trading businesses, the merchandises traded are strictly complied with international standards.

## Operating practices (continued)

### *Product responsibility (continued)*

Confidentiality – Confidentiality is one of our core values. Client's information is always handled diligently and confidentially. For any confidential information obtained through business relationships, employees should not disclose any information to third parties without proper and specific authority unless there is a legal or professional right or duty to do so.

### *Anti-corruption*

Maintaining an ethical working environment is one of our core values and therefore, we adopt a zero-tolerance approach for all kinds of corruption, bribery, extortion cases. We have established an "Anti-Money Laundering Policies" subjected to SFC regulations, as the guideline for preventing, detecting and reporting fraud, such as deception, bribery, extortion, corruption, embezzlement, misappropriation, false representation and collusion, and money laundering. All of our staff are well aware of such policy and strictly complied with relevant laws and regulations during the reporting period. No legal cases regarding corruption were charged against our employees and the Company.

## Community investment

### *Community involvement*

We emphasizes community involvement and therefore we encourage our employees to actively participate in charitable activities and voluntary services. Our employees actively joined the blood donation events held by Red Cross regularly, and some charity events such as marathon races. We will continuously encourage our employees to participate in more volunteer activities and services in the coming year.

# Independent Auditor's Report

Deloitte. 德勤

**TO THE SHAREHOLDERS OF CHINA STRATEGIC HOLDINGS LIMITED**
中策集團有限公司
*(Incorporated in Hong Kong with limited liability)*

## OPINION

We have audited the consolidated financial statements of China Strategic Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 54 to 139, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

## BASIS FOR OPINION

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

## KEY AUDIT MATTERS

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

## KEY AUDIT MATTERS (continued)

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| ***Fair value on financial instruments in respect of unlisted convertible securities*** | |
| We identified fair value of financial instruments in respect of unlisted convertible securities as a key audit matter due to judgement was exercised in selecting an appropriate valuation technique. In addition, significant assumptions and estimates were used to determine the fair value of unlisted convertible securities without quoted price in an active market.<br><br>As disclosed in Notes 24 and 36 to the consolidated financial statements, the fair value of unlisted convertible securities are HK$47,608,000 as at 31 December 2018.<br><br>The fair value of the above unlisted convertible securities were estimated by the management based on the binomial option pricing model with associated assumptions and key inputs of the model, namely risk free rate, expected volatility, dividend yield and discount rate being obtained by referencing to listed bonds with similar rating. The Group had engaged an independent professional valuer to perform such valuation. | Our procedures in relation to fair value on the financial instruments included:<br><br>• Obtaining an understanding of the entity's valuation process and adoption of assumptions and estimates;<br><br>• Evaluating the independent external valuer's competence, capabilities and objectivity;<br><br>• Engaging our internal valuation expert to evaluate the appropriateness of the valuation model adopted and checking its mathematical accuracy;<br><br>• Evaluating the appropriateness of the key assumptions in the binomial option pricing model, including risk free rate, expected volatility, dividend yield and discount rate; and<br><br>• Evaluating the sufficiency of the relevant disclosures of the financial instruments in the financial statements. |

## KEY AUDIT MATTERS (continued)

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| ***Provision for expected credit losses ("ECL") and impairment assessment on loan receivables*** | |
| We identified the ECL assessment and impairment assessment on loan receivables as a key audit matter due to management judgement was required in making an assessment of the adequacy of the ECL assessment and impairment provision for loan receivables rising from the money lending business.<br><br>As detailed in Note 23 to the consolidated financial statements, the Group's loan receivables as at 31 December 2018 amounted to HK$2,509,386,000.<br><br>In determining the impairment provision of loan receivables, the recoverability of the loan receivables was assessed by the management taking into account the credit quality and likelihood of collection.<br><br>ECL for loan receivables are based on management's estimate of 12 month ECL to be incurred, which is estimated by taking into account the credit loss experience, ageing of overdue, customers' repayment history and customers' financial position, all of which involve a significant degree of management judgement. | Our procedures in relation to management's impairment assessment of loan receivables included:<br><br>• Understanding and evaluating the entity's key controls on how the management estimates the credit loss allowance for loan receivables;<br><br>• Challenging management's basis and judgement in determining credit loss allowance on loan receivables as at 1 January 2018 and 31 December 2018, including the identification of credit impaired loan receivables, estimated loss rates applied to each customer and collaterals pledged to the Group;<br><br>• Evaluating management's assessment of the internal credit rating of the loan receivables by reference to the past due status, past collection history, subsequent settlement information and financial condition of the borrowers;<br><br>• Testing the mathematical accuracy of the impairment allowance calculation; and<br><br>• Evaluating the disclosures regarding the impairment assessment of loan receivables in Notes 2, 4 and 36 to the consolidated financial statements. |

## OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

## AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

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

# Independent Auditor's Report

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

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

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

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

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

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in the independent auditor's report is Mr. Tsang Yiu Chung.

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*

Hong Kong, 27 March 2019

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2018

| | Notes | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|---|
| **Revenue** | 5 | **1,477,776** | 1,337,246 |
| Trading income | | **1,072,587** | 1,050,406 |
| Dividend income | | **17,067** | 14,349 |
| Interest income | | **370,403** | 254,813 |
| Commission, underwriting fee and others | | **17,719** | 17,678 |
| Purchases and related expenses | | **(1,063,835)** | (1,040,580) |
| Other income | 7 | **776** | 8,582 |
| Other gain | 8 | **945** | 643 |
| Staff costs | | **(31,278)** | (38,876) |
| Impairment losses | | **(384)** | – |
| Other expenses | | **(32,543)** | (28,064) |
| Net gain on financial assets at fair value through profit or loss | 9 | **619,093** | 65,345 |
| Loss on disposal of debt instruments at fair value through other comprehensive income | | **(2,696)** | – |
| Loss on redemption of debt instruments at fair value through other comprehensive income | | **(93)** | – |
| Gain on disposal of available-for-sale investments | | **–** | 979 |
| Gain on redemption of available-for-sale investments | | **–** | 7,800 |
| Finance costs | 10 | **(162,053)** | (134,890) |
| Profit before tax | | **805,708** | 178,185 |
| Income tax expense | 11 | **(96,918)** | (51,992) |
| **Profit for the year attributable to owners of the Company** | 12 | **708,790** | 126,193 |
| **Other comprehensive (expense) income** | | | |
| *Items that may be reclassified subsequently to profit or loss:* | | | |
| Deferred tax on net fair value changes of debt instruments at fair value through other comprehensive income | | **19,174** | – |
| Net fair value loss on debt instruments at fair value through other comprehensive income | | **(145,512)** | – |
| Release on disposal of debt instruments at fair value through other comprehensive income | | **2,696** | – |
| Release on redemption of debt instruments at fair value through other comprehensive income | | **93** | – |
| Impairment loss on debt instruments at fair value through other comprehensive income | | **384** | – |
| Net fair value gain on available-for-sale investments | | **–** | 33,516 |
| Release on disposal of available-for-sale investments | | **–** | (979) |
| Release on redemption of available-for-sale investments | | **–** | (7,800) |
| **Other comprehensive (expense) income for the year** | | **(123,165)** | 24,737 |
| **Total comprehensive income for the year attributable to owners of the Company** | | **585,625** | 150,930 |
| **Earnings per share attributable to owners of the Company** | | | |
| – Basic | 16 | **HK4.17 cents** | HK0.74 cent |

# Consolidated Statement of Financial Position

At 31 December 2018

| | Notes | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 17 | **22,994** | 26,236 |
| Prepaid lease payments | 18 | **2,471** | 2,570 |
| Goodwill | 19 | **4,000** | 4,000 |
| Club debentures | 20 | **1,928** | 1,928 |
| Available-for-sale investments | 21 | **–** | 1,261,130 |
| Debt instruments at fair value through other comprehensive income | 22 | **987,860** | – |
| Loan receivables | 23 | **31,705** | 10,804 |
| Financial assets at fair value through profit or loss | 24 | **24,381** | – |
| Total non-current assets | | **1,075,339** | 1,306,668 |
| **Current assets** | | | |
| Inventories | 25 | **6,108** | 6,641 |
| Prepaid lease payments | 18 | **99** | 99 |
| Available-for-sale investments | 21 | **–** | 62,250 |
| Debt instruments at fair value through other comprehensive income | 22 | **3,822** | – |
| Loan receivables | 23 | **2,477,681** | 2,047,196 |
| Trade and other receivables | 26 | **182,910** | 56,632 |
| Income tax recoverable | | **3,104** | 2,587 |
| Financial assets at fair value through profit or loss | 24 | **2,068,030** | 1,270,302 |
| Pledged bank deposits | 27 | **31,394** | 30,821 |
| Bank balances and cash | 27 | **213,896** | 457,699 |
| Total current assets | | **4,987,044** | 3,934,227 |
| **Current liabilities** | | | |
| Trade and other payables | 28 | **109,820** | 191,711 |
| Income tax payable | | **18,743** | 19,250 |
| Borrowings | 29 | **703,271** | 430,756 |
| Notes payable | 30 | **–** | 1,492,168 |
| Total current liabilities | | **831,834** | 2,133,885 |
| **Net current assets** | | **4,155,210** | 1,800,342 |
| **Total assets less current liabilities** | | **5,230,549** | 3,107,010 |

# Consolidated Statement of Financial Position

At 31 December 2018

| | Notes | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Notes payable | 30 | **1,500,325** | – |
| Deferred tax liabilities | 31 | **84,242** | 34,853 |
| Total non-current liabilities | | **1,584,567** | 34,853 |
| **Net assets** | | **3,645,982** | 3,072,157 |
| **Capital and reserves** | | | |
| Share capital | 32 | **3,012,877** | 3,012,877 |
| Reserves | | **633,105** | 59,280 |
| **Total equity** | | **3,645,982** | 3,072,157 |

The consolidated financial statements on pages 54 to 139 have been approved and authorised for issue by the Board on 27 March 2019 and are signed on its behalf by:

**Dr. Or Ching Fai**
*Director*

**Sue Ka Lok**
*Director*

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

| | Share capital HK$'000 | Investment revaluation reserve HK$'000 | (Accumulated losses) retained profits HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| At 1 January 2017 | 3,012,877 | 7,118 | (98,768) | 2,921,227 |
| Profit for the year | – | – | 126,193 | 126,193 |
| Net fair value gain on available-for-sale investments | – | 33,516 | – | 33,516 |
| Release on disposal of available-for-sale investments | – | (979) | – | (979) |
| Release on redemption of available-for-sale investments | – | (7,800) | – | (7,800) |
| Total comprehensive income for the year | – | 24,737 | 126,193 | 150,930 |
| At 31 December 2017 | 3,012,877 | 31,855 | 27,425 | 3,072,157 |
| Adjustments (Note 2.3) | – | 25,638 | (37,438) | (11,800) |
| At 1 January 2018 (restated) | 3,012,877 | 57,493 | (10,013) | 3,060,357 |
| Profit for the year | **–** | **–** | **708,790** | **708,790** |
| Deferred tax on net fair value changes of debt instruments at fair value through other comprehensive income | **–** | **19,174** | **–** | **19,174** |
| Net fair value loss on debt instruments at fair value through other comprehensive income | **–** | **(145,512)** | **–** | **(145,512)** |
| Release on disposal of debt instruments at fair value through other comprehensive income | **–** | **2,696** | **–** | **2,696** |
| Release on redemption of debt instruments at fair value through other comprehensive income | **–** | **93** | **–** | **93** |
| Impairment loss on debt instruments at fair value through other comprehensive income | **–** | **384** | **–** | **384** |
| Total comprehensive (expense) income for the year | **–** | **(123,165)** | **708,790** | **585,625** |
| **At 31 December 2018** | **3,012,877** | **(65,672)** | **698,777** | **3,645,982** |

# Consolidated Statement of Cash Flows

For the year ended 31 December 2018

| | Notes | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|---|
| **Operating activities** | | | |
| Profit for the year | | 708,790 | 126,193 |
| Adjustments for: | | | |
| Finance costs | | 162,053 | 134,890 |
| Bank interest income | | (674) | (4,026) |
| Amortisation of prepaid lease payments | 12 | 99 | 99 |
| Depreciation of property, plant and equipment | 12 | 3,290 | 3,277 |
| Impairment loss | 22 | 384 | – |
| Loss on disposal of debt instruments at fair value through other comprehensive income | | 2,696 | – |
| Loss on redemption of debt instruments at fair value through other comprehensive income | | 93 | – |
| Gain on disposal of available-for-sale investments | | – | (979) |
| Gain on redemption of available-for-sale investments | | – | (7,800) |
| Net unrealised gain on financial assets at fair value through profit or loss | | (595,709) | (170,317) |
| Income tax expense | | 96,918 | 51,992 |
| **Operating cash flows before movements in working capital** | | 377,940 | 133,329 |
| Decrease in inventories | | 533 | 12,918 |
| (Increase) decrease in trade and other receivables | | (6,278) | 38,058 |
| Increase in loan receivables | | (463,186) | (1,303,788) |
| Increase in financial assets at fair value through profit or loss | | (302,141) | (355,578) |
| (Decrease) increase in trade and other payables | | (89,394) | 136,658 |
| Decrease (increase) in bank balances - client accounts | | 58,554 | (105,661) |
| Cash used in operations | | (423,972) | (1,444,064) |
| Income tax paid | | (29,379) | (29,313) |
| **Net cash used in operating activities** | | (453,351) | (1,473,377) |
| **Investing activities** | | | |
| Purchase of debt instruments at fair value through other comprehensive income | | (46,562) | – |
| Purchase of available-for-sale investments | | – | (1,256,299) |
| Proceeds from disposal of debt instruments at fair value through other comprehensive income | | 126,089 | – |
| Proceeds from redemption of debt instruments at fair value through other comprehensive income | | 62,400 | – |
| Proceeds from disposal of available-for-sale investments | | – | 109,352 |
| Proceeds from redemption of available-for-sale investments | | – | 780,000 |
| Interest received | | 674 | 4,026 |
| Placement of pledged bank deposits | | (573) | (290) |
| Purchase of property, plant and equipment | 17 | (48) | (189) |
| **Net cash from (used in) investing activities** | | 141,980 | (363,400) |

# Consolidated Statement of Cash Flows

For the year ended 31 December 2018

| | Notes | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|---|
| **Financing activities** | | | |
| New borrowings raised | | **693,433** | 629,223 |
| Repayments of borrowings | | **(420,918)** | (286,544) |
| Interest paid | | **(146,393)** | (112,725) |
| Redemption of notes issued | *30* | **(200,000)** | – |
| Net proceeds from issue of notes | *30* | **200,000** | – |
| **Net cash from financing activities** | | **126,122** | 229,954 |
| **Net decrease in cash and cash equivalents** | | **(185,249)** | (1,606,823) |
| **Cash and cash equivalents at the beginning of the year** | | **347,753** | 1,954,576 |
| **Cash and cash equivalents at the end of the year** | | **162,504** | 347,753 |
| **Represented by:** | | | |
| **Bank balances and cash** | | | |
| **– General accounts and cash** | *27* | **162,504** | 347,753 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 1. GENERAL

China Strategic Holdings Limited is a public limited liability company incorporated in Hong Kong and its shares are listed on the Stock Exchange. The registered office and principal place of business of the Company is Rooms 3206-3210, 32nd Floor, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong.

The consolidated financial statements are presented in HK$, which is also the functional currency of the Company and all values are rounded to the nearest thousand (HK$'000) except otherwise indicated.

The Company is an investment holding company. The principal activities of its subsidiaries are set out in Note 41 to the consolidated financial statements.

## 2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

### New and amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year.

| | |
|---|---|
| HKFRS 9 | Financial instruments |
| HKFRS 15 | Revenue from contracts with customers and the related amendments |
| HK(IFRIC) - Int 22 | Foreign currency transactions and advance consideration |
| Amendments to HKFRS 2 | Classification and measurement of share-based payment transactions |
| Amendments to HKFRS 4 | Applying HKFRS 9 financial instruments with HKFRS 4 insurance contracts |
| Amendments to HKAS 28 | As part of the annual improvements to HKFRSs 2014 - 2016 cycle |
| Amendments to HKAS 40 | Transfers of investment property |

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

## 2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

### New and amendments to HKFRSs that are mandatorily effective for the current year (continued)

#### 2.1 HKFRS 15 "Revenue from contracts with customers"

The Group has applied HKFRS 15 for the first time in the current year. HKFRS 15 superseded HKAS 18 "Revenue", HKAS 11 "Construction contracts" and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 "Revenue" and HKAS 11 "Construction contracts" and the related interpretations.

The Group recognises revenue from the following major sources which arise from contracts with customers/external sources:

- Investment in securities
- Trading of metal minerals, metal, coke products and electronic components
- Money lending
- Securities brokerage

Information about the Group's accounting policies and performance obligations resulting from application of HKFRS 15 are disclosed in Notes 3 and 5 respectively.

*Summary of effects arising from initial application of HKFRS 15*

The adoption of HKFRS 15 has had no material impact on the Group's financial performance and positions for the current year or at 1 January 2018.

The Group continues to act as a principal of its trading business upon the adoption of HKFRS 15 and recognises the gross amount of sales for the specified goods or services transferred. The Group acts as a principal of the trading business as the Group (i) concluded the purchase contract before the sale of goods; (ii) determined and established sales price by referencing to the current market information; and (iii) demonstrated the ability to direct the delivery of goods to different customers before entering into the sales contracts.

## 2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

### New and amendments to HKFRSs that are mandatorily effective for the current year (continued)

### 2.2 HKFRS 9 "Financial instruments"

In the current year, the Group has applied HKFRS 9 "Financial instruments" and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for (i) the classification and measurement of financial assets and financial liabilities, (ii) expected credit losses ("ECL") for financial assets and (iii) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised at 1 January 2018. The difference between carrying amounts at 31 December 2017 and the carrying amounts at 1 January 2018 are recognised in the opening retained profits and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 "Financial instruments: recognition and measurement".

Accounting policies resulting from application of HKFRS 9 are disclosed in Note 3.

## 2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

### New and amendments to HKFRSs that are mandatorily effective for the current year (continued)

### 2.2 HKFRS 9 "Financial instruments" (continued)

*Summary of effects arising from initial application of HKFRS 9*

The table below illustrates the classification and measurement of financial assets and other items subject to ECL under HKFRS 9 and HKAS 39 at the date of initial application, 1 January 2018.

| | Available-for-sale ("AFS") investments HK$'000 | Debt instruments at fair value through other comprehensive income ("FVTOCI") HK$'000 | Financial assets at fair value through profit or loss ("FVTPL") HK$'000 | Loan receivables HK$'000 | Investment revaluation reserve HK$'000 | Retained profits (accumulated losses) HK$'000 |
|---|---|---|---|---|---|---|
| **Closing balance at 31 December 2017 – HKAS 39 (audited)** | 1,323,380 | – | 1,270,302 | 2,058,000 | 31,855 | 27,425 |
| **Effect arising from initial application of HKFRS 9:** | | | | | | |
| **Reclassification** | | | | | | |
| From AFS investments | (1,323,380) | 1,279,121 | 44,259 | – | – | – |
| From investment revaluation reserve | – | – | – | – | 10,340 | (10,340) |
| **Remeasurement** | | | | | | |
| Impairment under ECL model | – | – | – | (11,800) | 15,298 | (27,098) |
| **Opening balance at 1 January 2018 (restated)** | – | 1,279,121 | 1,314,561 | 2,046,200 | 57,493 | (10,013) |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

**New and amendments to HKFRSs that are mandatorily effective for the current year (continued)**

### 2.2 HKFRS 9 "Financial instruments" (continued)

*Summary of effects arising from initial application of HKFRS 9 (continued)*

(a) AFS investments

From AFS equity investments to financial assets at FVTPL

At the date of initial application of HKFRS 9, the Group's equity investments of HK$44,259,000 were reclassified from AFS investments to financial assets at FVTPL. The fair value losses of HK$10,340,000 relating to those equity investments previously carried at fair value were transferred from investment revaluation reserve to retained profits at 1 January 2018.

From AFS debt investments to debt instruments at FVTOCI

Listed bonds with a fair value of HK$1,279,121,000 were reclassified from AFS investments to debt instruments at FVTOCI, as these investments are held within a business model whose objective is achieved by both collecting contractual cash flows and selling of these assets and the contractual cash flows of these investments are solely payments of principal and interest on the principal amount outstanding. Related fair value gains of HK$42,195,000 continued to accumulate in the investment revaluation reserve at 1 January 2018.

(b) Impairment under ECL model

The Group applies the HKFRS 9 simplified approach to measure ECL for all trade receivables that are within the scope of HKFRS 15. To measure the ECL, trade receivables have been assessed individually with outstanding significant balances and/or grouped based on shared credit risk characteristics.

ECL for other financial assets at amortised cost, including pledged bank deposits, loan receivables, other receivables, debt instrument at FVTOCI, bank balances and cash are assessed on 12 month ECL ("12m ECL") basis as there had been no significant increase in credit risk since initial recognition.

The Group assessed the ECL for debt instruments at FVTOCI by reference to credit rating of bond investment by rating agencies or credit spread and yield to maturity of bond issuers within similar industries, macroeconomic factors affecting the respective industry of each issuer, corporate historical default, loss rate and exposure of default of each bond investment. The Group considers there has been no significant increase in credit risk since initial recognition. Therefore, these investments are considered to be low credit risk investments and the loss allowance is assessed on 12m ECL basis.

## 2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

### New and amendments to HKFRSs that are mandatorily effective for the current year (continued)

### 2.2 HKFRS 9 "Financial instruments" (continued)

*Summary of effects arising from initial application of HKFRS 9 (continued)*

(b) Impairment under ECL model (continued)

At 1 January 2018, additional credit loss allowance of HK$27,098,000 has been recognised against retained profits. The additional loss allowance of HK$11,800,000 was charged against the loan receivables while for the debt instruments at FVTOCI, loss allowance of HK$15,298,000 was recognised against the investment revaluation reserve.

All loss allowances, including debt instruments at FVTOCI income and loan receivables at 31 December 2017 reconciled to the opening loss allowances at 1 January 2018 are as follows:

| | Debt instruments at FVTOCI<br>*HK$'000* | Loan receivables<br>*HK$'000* |
|---|---|---|
| At 31 December 2017 - HKAS 39 | N/A | – |
| Amounts remeasured through opening retained profits and/or investment revaluation reserve | 15,298 | 11,800 |
| **At 1 January 2018 (restated)** | **15,298** | **11,800** |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

### New and amendments to HKFRSs that are mandatorily effective for the current year (continued)

### 2.3 Impacts on opening consolidated statement of financial position arising from the application of all new standards

As a result of the changes in the Group's accounting policies above, the opening consolidated statement of financial position had to be restated. The following table shows the adjustments recognised for each of the line items affected. Line items that were not affected by the changes have not been included.

| | At 31 December 2017 (Audited) *HK$'000* | HKFRS 9 *HK$'000* | **At 1 January 2018 (Restated) HK$'000** |
|---|---|---|---|
| **Non-current assets** | | | |
| Available-for-sale investments | 1,261,130 | (1,261,130) | **–** |
| Debt instruments at fair value through other comprehensive income | – | 1,216,871 | **1,216,871** |
| Loan receivables | 10,804 | – | **10,804** |
| Financial assets at fair value through profit or loss | – | 44,259 | **44,259** |
| **Current assets** | | | |
| Available-for-sale investments | 62,250 | (62,250) | **–** |
| Debt instruments at fair value through other comprehensive income | – | 62,250 | **62,250** |
| Loan receivables | 2,047,196 | (11,800) | **2,035,396** |
| **Capital and reserves** | | | |
| Investment revaluation reserve | 31,855 | 25,638 | **57,493** |
| Retained profits (accumulated losses) | 27,425 | (37,438) | **(10,013)** |

## 2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

### New and amendments to HKFRSs in issue but not yet effective

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

| | |
|---|---|
| HKFRS 16 | Leases[1] |
| HKFRS 17 | Insurance contracts[2] |
| HK(IFRIC) – Int 23 | Uncertainty over income tax treatments[1] |
| Amendments to HKFRS 3 | Definition of a business[4] |
| Amendments to HKFRS 9 | Prepayment features with negative compensation[1] |
| Amendments to HKFRS 10 and HKAS 28 | Sale or contribution of assets between an investor and its associate or joint venture[3] |
| Amendments to HKAS 1 and HKAS 8 | Definition of material[5] |
| Amendments to HKAS 19 | Plan amendment, curtailment or settlement[1] |
| Amendments to HKAS 28 | Long-term interests in associates and joint ventures[1] |
| Amendments to HKFRSs | Annual improvements to HKFRSs 2015 - 2017 cycle[1] |

1 Effective for annual periods beginning on or after 1 January 2019.
2 Effective for annual periods beginning on or after 1 January 2021.
3 Effective for annual periods beginning on or after a date to be determined.
4 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.
5 Effective for annual periods beginning on or after 1 January 2020.

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

### HKFRS 16 "Leases"

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 "Leases" and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, HKFRS 16 requires sales and leaseback transactions to be determined based on the requirements of HKFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. HKFRS 16 also includes requirements relating to subleases and lease modifications.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

### HKFRS 16 "Leases" (continued)

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold lands for own use while other operating lease payments are presented as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing and operating cash flows respectively by the Group. Upfront prepaid lease payments will continue to be presented as investing or operating cash flows in accordance with the nature as appropriate.

Under HKAS 17, the Group has already recognised prepaid lease payments for leasehold lands where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

Other than certain requirements which are also applicable to lessor, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

At 31 December 2018, the Group has non-cancellable operating lease commitments of HK$18,930,000 as disclosed in Note 37. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid of HK$2,376,000 as rights under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right-of-use assets.

## 2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

### HKFRS 16 "Leases" (continued)

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group intends to elect the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC) - Int 4 "Determining whether an arrangement contains a lease" and not apply this standard to contracts that were not previously identified as containing a lease applying HKAS 17 and HK(IFRIC) - Int 4. Therefore, the Group will not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Group intends to elect the modified retrospective approach for the application of HKFRS 16 as lessee and will recognise the cumulative effect of initial application to opening retained profits without restating comparative information.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Listing Rules and by the Hong Kong Companies Ordinance.

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

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

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

The principal accounting policies are set out below.

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

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

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Business combinations

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

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

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 "Income taxes" and HKAS 19 "Employee benefits" respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 "Share-based payment" at the acquisition date; and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 "Non-current assets held for sale and discontinued operations" are measured in accordance with that standard.

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

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation are initially measured at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets or at fair value. The choice of measurement basis is made on a transaction-by-transaction basis.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Business combinations (continued)

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

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

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss or other comprehensive income, as appropriate. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income and measured under HKFRS9/HKAS 39 would be accounted for on the same basis as would be required if the Group had disposed directly of the previously held equity interest.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted retrospectively during the measurement period (see above), and additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Goodwill

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

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit (or group of cash-generating units).

On disposal of the relevant cash-generating unit or any of the cash-generating unit within the group of cash-generating units, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal. When the Group disposes of an operation within the cash-generating unit (or a cash-generating unit within a group of cash-generating units), the amount of goodwill disposed of is measured on the basis of the relative values of the operation (or the cash-generating unit) disposed of and the portion of the cash-generating unit (or the group of cash-generating units) retained.

### Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in Note 2)

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in Note 2) (continued)

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to the same contract are accounted for and presented on a net basis.

*Principal versus agent*

When another party is involved in providing goods or services to a customer, the Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. the Group is a principal) or to arrange for those goods or services to be provided by the other party (i.e. the Group is an agent).

The Group is a principal if it controls the specified good or service before that good or service is transferred to a customer.

The Group is an agent if its performance obligation is to arrange for the provision of the specified good or service by another party. In this case, the Group does not control the specified good or service provided by another party before that good or service is transferred to the customer. When the Group acts as an agent, it recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Revenue recognition (prior to 1 January 2018)

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

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

*Sale of goods*

Revenue from sales of goods is recognised when the goods are delivered and titles have passed.

*Service income*

Service income is recognised when services are provided.

*Dividend and interest income*

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

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

*Arrangement fee income*

Arrangement fee income on loan receivables is deferred and recognised as an adjustment to the effective interest rate on the loan receivables.

*Commission and handling income*

Brokerage commission income is recognised on a trade date basis when the relevant transactions are executed. Handling income arising from brokerage business is recognised when the related services are rendered.

*Underwriting fee income*

Underwriting fee is recognised when the obligation of underwriting is completed, that is, the economic interests may flow into the Group and the relevant revenue and costs may be measured reliably.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Leases

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

*The Group as lessee*

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs. Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

*Leasehold land and building*

When the Group makes payments for a property interest which includes both leasehold land and building elements, the Group assesses the classification of each element separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire property is accounted as an operating lease. Specifically, the entire consideration (including any lump-sum upfront payments) are allocated between the leasehold land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element at initial recognition.

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the payments cannot be allocated reliably between the leasehold land and building elements, the entire property is generally classified as if the leasehold land is under finance lease.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's operations are translated into the presentation currency of the Group (i.e. HK$) using the exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange reserve.

### Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of these assets until such time as the assets are substantially ready for their intended use or sale.

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

### Retirement benefit costs

Payments to the Mandatory Provident Fund Scheme ("MPF Scheme") are recognised as an expense when employees have rendered service entitling them to the contributions.

### Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Taxation

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

*Current tax*

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

*Deferred tax*

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

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

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

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

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

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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Taxation (continued)

*Current and deferred tax for the year*

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

### Property, plant and equipment

Property, plant and equipment, including buildings held for use in the production or supply of goods or services, or for administrative purposes are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Properties in the course of supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost of assets (other than properties under construction) less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of inventories are determined on a weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs necessary to make the sale.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15 since 1 January 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

*Effective interest method*

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

Interest income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL, of which interest income is included in revenue.

*Financial assets*

*Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in Note 2)*

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments (continued)

*Financial assets (continued)*

*Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in Note 2) (continued)*

Financial assets that meet the following conditions are subsequently measured at FVTOCI:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in OCI if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 "Business combinations" applies.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or

- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

- it is a derivative that is not designated and effective as a hedging instrument.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments (continued)

*Financial assets (continued)*

*Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in Note 2) (continued)*

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost and debt instruments/receivables subsequently measured at FVTOCI. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit-impaired.

(ii) Debt instruments classified as at FVTOCI

Subsequent changes in the carrying amounts for debt instruments classified as at FVTOCI as a result of interest income calculated using the effective interest method, are recognised in profit or loss. All other changes in the carrying amount of these debt instruments are recognised in OCI and accumulated under the heading of investment revaluation reserve. Impairment allowances are recognised in profit or loss with corresponding adjustment to OCI without reducing the carrying amounts of these debt instruments. The amounts that are recognised in profit or loss are the same as the amounts that would have been recognised in profit or loss if these debt instruments had been measured at amortised cost. When these debt instruments are derecognised, the cumulative gains or losses previously recognised in OCI are reclassified to profit or loss.

(iii) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "net gain on financial assets at fair value through profit or loss" line item.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments (continued)

*Financial assets (continued)*

*Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with Note 2)*

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade and other receivables, pledged bank deposits, bank balances and cash, loan receivables and debt instruments at FVTOCI). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12m ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessments are done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognise lifetime ECL for trade receivables. The ECL on these assets are assessed individually for debtors with significant balances and/or collectively using simplified approach with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;
- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;
- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments (continued)

*Financial assets (continued)*

*Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with Note 2) (continued)*

(i) Significant increase in credit risk (continued)

- an actual or expected significant deterioration in the operating results of the debtor;
- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations; and
- adverse change in the fair value of the pledged assets on loan receivables.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the aforegoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if (i) it has a low risk of default, (ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and (iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definitions or the counterparty can meet the financial commitment.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments (continued)

*Financial assets (continued)*

*Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with Note 2) (continued)*

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments (continued)

***Financial assets (continued)***

*Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with Note 2) (continued)*

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Where ECL is measured on a collective basis, the financial instruments are grouped on the basis below:

- Nature of financial instruments (i.e. the Group's trade and other receivables, amounts due from customers are each assessed as a separate group);
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments (continued)

***Financial assets (continued)***

*Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with Note 2) (continued)*

(v) Measurement and recognition of ECL (continued)

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

Except for investments in debt instruments that are measured at FVTOCI, the Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables and loan receivables where the corresponding adjustment is recognised through a loss allowance account. For investments in debt instruments that are measured at FVTOCI, the loss allowance is recognised in OCI and accumulated in the investment revaluation reserve without reducing the carrying amount of these debt instruments.

*Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018)*

Financial assets are classified into the following specified categories: financial assets at FVTPL, AFS financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments (continued)

***Financial assets (continued)***

*Financial assets at FVTPL*

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

A financial asset is classified as held for trading if:

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

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets and is included in the "net gain on financial assets at fair value through profit or loss". Fair value is determined in the manner described in Note 36c.

*AFS financial assets*

AFS financial assets are non-derivatives that are either designated as AFS or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at FVTPL.

Equity and debt securities held by the Group that are classified as AFS financial assets are measured at fair value at the end of each reporting period except for unquoted equity investments whose fair value cannot be reliably measured. Changes in the carrying amount of AFS debt instruments relating to interest income calculated using the effective interest method, are recognised in profit or loss. Dividends on AFS equity investments are recognised in profit or loss when the Group's right to receive the dividends is established. Other changes in the carrying amount of AFS financial assets are recognised in other comprehensive income and accumulated under the heading of investment revaluation reserve.

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments (continued)

***Financial assets (continued)***

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, loan receivables, pledged bank deposits and bank balances) are measured at amortised cost using the effective interest method, less any impairment.

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

*Impairment of financial assets (before application of HKFRS 9 on 1 January 2018)*

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

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

For all other financial assets, objective evidence of impairment could include:

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

Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio and observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments (continued)

*Financial assets (continued)*

*Impairment of financial assets (before application of HKFRS 9 on 1 January 2018) (continued)*

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

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

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

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

*Derecognition of financial assets*

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

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments (continued)

*Derecognition of financial assets (continued)*

On derecognition of an investment in a debt instrument classified as at FVTOCI upon application of HKFRS 9, the cumulative gain or loss previously accumulated in the investment revaluation reserve is reclassified to profit or loss.

On derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI upon application of HKFRS 9, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to retained profits.

On derecognition of an AFS financial asset, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

***Financial liabilities and equity***

*Classification as debt or equity*

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

*Equity instruments*

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

*Financial liabilities*

All financial liabilities are subsequently measured at amortised cost using the effective interest rate method.

*Financial liabilities at amortised cost*

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments (continued)

*Derecognition/substantial modification of financial liabilities*

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

The Group accounts for an exchange with a lender of a financial liability with substantially different terms as an extinguishment of the original financial liability and the recognition of a new financial liability. A substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the Group) is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

The Group considers that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. Accordingly, such exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. The exchange or modification is considered as non-substantial modification when such difference is less than 10 per cent.

### Impairment on tangible assets other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets with finite useful lives to determine whether there is any indication that these assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any).

The recoverable amount of tangible assets are estimated individually, when it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

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

### Equity-settled share-based payment transactions

*Share options granted to employees and directors*

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share options reserve). For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share options reserve.

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

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

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

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

### Critical judgements in applying accounting policies

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

*Principal versus agent consideration*

The Group engages in trading of metal minerals, metal and coke products and electronic components. Upon application of HKFRS 15, the Group reassessed whether the Group should continue to recognise revenue on gross basis based on the requirements in HKFRS 15. The Group concluded that the Group acts as the principal for such transactions as it controls the specified good before it is transferred to the customer after taking into consideration indicators such as the Group (i) concluded the purchase contract before the sale of goods; (ii) determined and established sales price by referencing to the current market information; and (iii) demonstrated the ability to direct the delivery of goods to different customers before entering into the sales contracts.

### Key sources of estimation uncertainty

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

*Fair value measurement of financial instruments*

At 31 December 2018, certain of the Group's financial assets, unlisted convertible securities amounting to HK$47,608,000 (31 December 2017: HK$224,751,000) are measured at fair values, which are determined based on the binomial option pricing model with the key inputs of the model, namely risk free rate, expected volatility, dividend yield and discount rate being obtained by referencing to listed bonds with similar rating. Judgement and estimation are required in establishing the relevant valuation technique and the relevant inputs thereof. Changes in assumptions relating to these factors could affect the reported fair values of these instruments. See Note 36c for further disclosures.

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

### Key sources of estimation uncertainty (continued)

*Provision of ECL and impairment loss for loan receivables*

The Group applies HKFRS 9 to measure ECL which uses a 12m ECL for loan receivables. The management maintains the credit information for respective borrower which contain the financial condition of the borrowers, past collection history and collaterals, if any, for the assessment of the internal credit rating of the loan receivables. To measure the ECL, loan receivables have been assessed individually.

The credit losses expectations are based on the Group's past experience of collecting payments, past due status, subsequent settlement information, internal credit rating and forward-looking information. A considerable amount of judgement is required in estimating the ultimate realisation of financial assets.

The provision of ECL is sensitive to changes in estimates. The information about the ECL and the Group's financial assets are disclosed in Notes 23 and 36 respectively.

At 31 December 2018, the carrying amounts of loan receivables was HK$2,509,386,000 (2017: HK$2,058,000,000) with allowance for impairment of HK$11,800,000 (2017: nil).

## 5. REVENUE

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

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Trading of coke products | **701,680** | 664,487 |
| Trading of metal minerals and metal | **352,625** | 355,557 |
| Sales of electronic components | **18,282** | 30,362 |
| Dividend income from securities investments | **17,067** | 14,349 |
| Interest income from securities investments | **105,017** | 73,761 |
| Interest income from securities margin financing business | **356** | – |
| Interest income from money lending business | **265,030** | 181,052 |
| Arrangement fee income from money lending business | **4,339** | 8,503 |
| Commission and handling income from securities brokerage business | **6,567** | 6,308 |
| Underwriting fee income from securities brokerage business | **6,813** | 2,867 |
| | **1,477,776** | 1,337,246 |

## 5. REVENUE (continued)

Disaggregation of revenue from contracts with customers and reconciliation of total revenue:

**For the year ended 31 December 2018**

| Segments | Investment in securities HK$'000 | Trading HK$'000 | Money lending HK$'000 | Securities brokerage HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| **Types of goods and services:** | | | | | |
| Commission, underwriting fee and other income | – | – | 4,339 | 13,380 | 17,719 |
| Trading income | | | | | |
| Coke products | – | 701,680 | – | – | 701,680 |
| Iron ore | – | 352,625 | – | – | 352,625 |
| Electronic components | – | 18,282 | – | – | 18,282 |
| **Revenue from contracts with customers** | – | 1,072,587 | 4,339 | 13,380 | 1,090,306 |
| Dividend income | 17,067 | – | – | – | 17,067 |
| Interest income | 105,017 | – | 265,030 | 356 | 370,403 |
| **Total revenue** | 122,084 | 1,072,587 | 269,369 | 13,736 | 1,477,776 |

During the year, the revenue is recognised at a point in time except for dividend income and interest income which fall outside the scope of HKFRS 15.

Revenue is derived principally from trading of metal minerals, metal, coke products and electronic components, recognised once the control of the goods has transferred from the Group to the buyer. Revenue is measured based on consideration specified in the contract with the customer.

Brokerage commission income is recognised on a trade date basis when the relevant transactions are executed. Underwriting fee income is recognised when the obligation of underwriting is completed and the economic interests may flow into the Group and the relevant revenue and costs may be measured reliably. Other service income are recognised when the related services are rendered.

All the Group's contracts with customers are for periods of one year or less. As permitted under HKFRS 15, the transaction price allocated to unsatisfied performance obligations at 31 December 2018 is not disclosed.

This is consistent with the revenue information disclosed for each reportable segment.

## 6. SEGMENT INFORMATION

The following is an analysis of the Group's revenue and results by operating segments, based on information provided to the chief operating decision maker represented by the Board, for the purposes of allocating resources to segments and assessing their performance. This is also the basis upon which the Group is arranged and organised.

The Group's reportable and operating segments under HKFRS 8 are as follows:

1. Investment in securities
2. Trading of metal minerals, metal, coke products and electronic components ("Trading")
3. Money lending
4. Securities brokerage

### Segment revenue and results

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

**For the year ended 31 December 2018**

| | Investment in securities *HK$'000* | Trading *HK$'000* | Money lending *HK$'000* | Securities brokerage *HK$'000* | Total *HK$'000* |
|---|---|---|---|---|---|
| **Segment revenue** | | | | | |
| External sales/sources | 122,084 | 1,072,587 | 269,369 | 13,736 | 1,477,776 |
| **Results** | | | | | |
| Segment results | 735,422 | 8,740 | 266,829 | 7,484 | 1,018,475 |
| Other income | | | | | 9 |
| Central administrative expenses | | | | | (50,723) |
| Finance costs | | | | | (162,053) |
| Profit before tax | | | | | 805,708 |
| Income tax expense | | | | | (96,918) |
| Profit for the year | | | | | 708,790 |
| **Other segment information** | | | | | |
| Amortisation of prepaid lease payments | 99 | – | – | – | 99 |
| Depreciation of property, plant and equipment | 2,376 | 28 | 862 | 24 | 3,290 |
| Net gain on financial assets at FVTPL | 619,093 | – | – | – | 619,093 |
| Loss on disposal of debt instruments at FVTOCI | (2,696) | – | – | – | (2,696) |
| Loss on redemption of debt instruments at FVTOCI | (93) | – | – | – | (93) |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 6. SEGMENT INFORMATION (continued)

### Segment revenue and results (continued)

For the year ended 31 December 2017

| | Investment in securities *HK$'000* | Trading *HK$'000* | Money lending *HK$'000* | Securities brokerage *HK$'000* | Total *HK$'000* |
|---|---|---|---|---|---|
| **Segment revenue** | | | | | |
| External sales/sources | 88,110 | 1,050,406 | 189,555 | 9,175 | 1,337,246 |
| **Results** | | | | | |
| Segment results | 165,454 | 9,965 | 186,184 | 6,885 | 368,488 |
| Other income | | | | | 1,866 |
| Other loss | | | | | (79) |
| Central administrative expenses | | | | | (57,200) |
| Finance costs | | | | | (134,890) |
| Profit before tax | | | | | 178,185 |
| Income tax expense | | | | | (51,992) |
| Profit for the year | | | | | 126,193 |
| **Other segment information** | | | | | |
| Amortisation of prepaid lease payments | 99 | – | – | – | 99 |
| Depreciation of property, plant and equipment | 1,471 | 89 | 1,656 | 61 | 3,277 |
| Net gain on financial assets at FVTPL | 65,345 | – | – | – | 65,345 |
| Gain on disposal of AFS investments | 979 | – | – | – | 979 |
| Gain on redemption of AFS investments | 7,800 | – | – | – | 7,800 |

The accounting policies of the operating segments are the same as the Group's accounting policies described in Note 3. Segment profit represents the profit earned by each segment without allocation of certain other income, certain other loss, central administrative expenses, finance costs and income tax expense.

## 6. SEGMENT INFORMATION (continued)

### Segment assets and liabilities

The following is an analysis of the Group's assets and liabilities by reportable and operating segments:

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Segment assets** | | |
| Investment in securities | **3,266,738** | 2,709,999 |
| Trading | **92,574** | 112,024 |
| Money lending | **2,520,823** | 2,133,891 |
| Securities brokerage | **140,862** | 230,829 |
| Total segment assets | **6,020,997** | 5,186,743 |
| Property, plant and equipment | **22,994** | 26,236 |
| Prepaid lease payments | **2,570** | 2,669 |
| Bank balances and cash | **7,147** | 17,256 |
| Other unallocated assets | **8,675** | 7,991 |
| Consolidated assets | **6,062,383** | 5,240,895 |
| **Segment liabilities** | | |
| Investment in securities | **797,038** | 473,388 |
| Trading | **2,390** | 15,068 |
| Money lending | **10,415** | 12,880 |
| Securities brokerage | **87,530** | 161,825 |
| Total segment liabilities | **897,373** | 663,161 |
| Other payables | **18,703** | 13,409 |
| Notes payable | **1,500,325** | 1,492,168 |
| Consolidated liabilities | **2,416,401** | 2,168,738 |

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

- all assets are allocated to operating segments other than property, plant and equipment, prepaid lease payments, certain bank balances and cash and certain other assets; and

- all liabilities are allocated to operating segments other than certain other payables and notes payable.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 6. SEGMENT INFORMATION (continued)

### Geographical information

The Group's operations are located in Hong Kong and the PRC.

Information about the Group's revenue from external customers/sources by geographical location of the customers/sources is presented based on the location of the customers/sources. Information about the Group's non-current assets is presented based on the geographical location of the assets.

| | Revenue from external customers/sources | | Non-current assets *(Note)* | |
|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| Hong Kong | **647,474** | 917,186 | **24,000** | 27,174 |
| The PRC | **128,622** | 229,383 | **3,393** | 3,560 |
| Europe | **701,680** | 120,963 | **–** | – |
| South America | **–** | 69,714 | **–** | – |
| | **1,477,776** | 1,337,246 | **27,393** | 30,734 |

*Note:* Non-current assets excluded goodwill, AFS investments, debt instruments at FVTOCI, loan receivables and financial assets at FVTPL.

### Information about major customers

Revenue from customers of trading business contributing over 10% of the total revenue of the Group for the corresponding years are as follows:

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Customer A | **407,873** | –[1] |
| Customer B | **293,807** | –[2] |
| Customer C | **231,602** | –[1] |
| Customer D | **–[1]** | 139,290 |
| Customer E | **–[1]** | 543,524 |

1 No revenue generated from the customers during the year/prior year.

2 The corresponding revenue did not contribute over 10% of the total revenue of the Group.

## 7. OTHER INCOME

| | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|
| Bank interest income | 674 | 4,026 |
| Commission income from investment in securities | – | 4,368 |
| Others | 102 | 188 |
| | 776 | 8,582 |

## 8. OTHER GAIN

| | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|
| Exchange gain, net | 945 | 643 |

## 9. NET GAIN ON FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|
| Net unrealised gain on financial assets at FVTPL | 595,709 | 170,317 |
| Net realised gain (loss) on sales of financial assets at FVTPL | 23,384 | (104,972) |
| | 619,093 | 65,345 |

## 10. FINANCE COSTS

| | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|
| Interest on advances drawn on bill receivables discounted with full recourse | 1,272 | 1,137 |
| Interest on borrowings | 24,871 | 6,847 |
| Interest on notes payable *(Note 30)* | 135,910 | 126,906 |
| | 162,053 | 134,890 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 11. INCOME TAX EXPENSE

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Tax charge comprises: | | |
| Current tax | | |
| – Hong Kong Profits Tax | 28,414 | 22,055 |
| (Over)underprovision in prior years | | |
| – Hong Kong Profits Tax | (59) | 346 |
| | 28,355 | 22,401 |
| Deferred tax *(Note 31)* | 68,563 | 29,591 |
| Income tax expense recognised in profit or loss | 96,918 | 51,992 |

Hong Kong Profits Tax was calculated at 16.5% of the estimated assessable profit for the year ended 31 December 2017.

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduced the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities in Hong Kong not qualifying for the two-tiered profits tax rates regime will continue to be taxed at the flat rate of 16.5%.

The tax charge for the year can be reconciled to the profit before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Profit before tax | 805,708 | 178,185 |
| Tax at the domestic income tax rate of 16.5% | 132,942 | 29,401 |
| Tax effect of expenses not deductible for tax purpose | 2,073 | 557 |
| Tax effect of income not taxable for tax purpose | (44,675) | (24,217) |
| (Over)underprovision in prior years | (59) | 346 |
| Tax effect of tax loss not recognised | 7,641 | 46,786 |
| Income tax at concessionary rate | (165) | – |
| Utilisation of tax losses previously not recognised | (839) | (881) |
| Income tax expense for the year | 96,918 | 51,992 |

## 12. PROFIT FOR THE YEAR

Profit for the year has been arrived at after charging the following items:

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Staff costs | | |
| – directors' emoluments *(Note 13)* | **11,586** | 22,328 |
| – other staff salaries, wages and other benefits | **18,755** | 15,853 |
| – retirement benefit scheme contributions, excluding directors | **937** | 695 |
| Total staff costs | **31,278** | 38,876 |
| Auditor's remuneration | **1,949** | 1,659 |
| Amortisation of prepaid lease payments | **99** | 99 |
| Depreciation of property, plant and equipment | **3,290** | 3,277 |
| Cost of inventories recognised as expenses | **968,894** | 1,014,786 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 13. DIRECTORS' AND CHIEF EXECUTIVE OFFICER'S EMOLUMENTS

The emoluments paid or payable to each of the seven (2017: seven) directors, disclosed pursuant to the applicable Listing Rules and Hong Kong Companies Ordinance, were as follows:

| | 2018 | | | | | 2017 | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Fee | Salaries and other benefits | Retirement benefit scheme contributions | Discretionary bonus | Total | Fee | Salaries and other benefits | Retirement benefit scheme contributions | Discretionary bonus | Total |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Executive directors | | | | | | | | | | |
| – Dr. Or Ching Fai *(Note)* | – | 2,700 | – | – | 2,700 | – | 11,650 | – | 4,500 | 16,150 |
| – Mr. Sue Ka Lok | – | 1,935 | 147 | 1,500 | 3,582 | – | 1,590 | 80 | 1,000 | 2,670 |
| – Ms. Lee Chun Yeung, Catherine | – | 1,101 | 72 | 380 | 1,553 | – | 1,058 | 53 | 350 | 1,461 |
| – Mr. Chow Kam Wah | – | 1,191 | 18 | 380 | 1,589 | – | 1,129 | 18 | 350 | 1,497 |
| | – | 6,927 | 237 | 2,260 | 9,424 | – | 15,427 | 151 | 6,200 | 21,778 |
| Non-executive director | | | | | | | | | | |
| – Dr. Or Ching Fai *(Note)* | 1,612 | – | – | – | 1,612 | – | – | – | – | – |
| Independent non-executive directors | | | | | | | | | | |
| – Ms. Ma Yin Fan | 200 | – | – | – | 200 | 200 | – | – | – | 200 |
| – Mr. Chow Yu Chun, Alexander | 200 | – | – | – | 200 | 200 | – | – | – | 200 |
| – Mr. Leung Hoi Ying | 150 | – | – | – | 150 | 150 | – | – | – | 150 |
| | 550 | – | – | – | 550 | 550 | – | – | – | 550 |
| Total | 2,162 | 6,927 | 237 | 2,260 | 11,586 | 550 | 15,427 | 151 | 6,200 | 22,328 |

*Note:* Re-designated from an Executive Director to a Non-executive Director on 1 April 2018.

The payment of discretionary bonus to executive directors was made under the recommendation of the Remuneration Committee and was at the discretion of the Board, determined with reference to the director's performance and the Group's performance for the year.

Dr. Or Ching Fai was the Chief Executive Officer of the Company until 18 January 2018 and Mr. Sue Ka Lok has been appointed as the Chief Executive Officer of the Company on 18 January 2018. Their emoluments disclosed above include those services rendered by each of them as the Chief Executive Officer.

## 13. DIRECTORS' AND CHIEF EXECUTIVE OFFICER'S EMOLUMENTS (continued)

The executive directors' emoluments shown above were mainly for their services in connection with the management of the affairs of the Group. The emoluments of the non-executive director and independent non-executive directors' shown above were mainly for their services as directors of the Company.

During the year, no emoluments were paid by the Group to any directors as an inducement to join or upon joining the Group or as compensation for loss of office. No directors waived or agreed to waive any emoluments for both years.

## 14. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, four (2017: four) of them were executive directors or non-executive director of the Company whose emoluments are included in Note 13 above. The emolument of the remaining one (2017: one) individual was as follows:

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Salaries and other benefits | **1,040** | 1,040 |
| Retirement benefit scheme contributions | **52** | 52 |
| | **1,092** | 1,092 |

The emolument was within the following band:

| | **Number of individuals** | |
|---|---|---|
| | **2018** | 2017 |
| HK$1,000,001 – HK$1,500,000 | **1** | 1 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 15. DIVIDENDS

No dividend was paid or proposed for the years ended 31 December 2018 and 2017, nor has any dividend been proposed since the end of the reporting periods.

## 16. EARNINGS PER SHARE

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

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Earnings:** | | |
| Profit for the year attributable to owners of the Company for the purpose of calculating basic earnings per share | **708,790** | 126,193 |

| | **2018** | 2017 |
|---|---|---|
| | ***'000*** | *'000* |
| **Number of shares:** | | |
| Weighted average number of ordinary shares for the purpose of calculating basic earnings per share | **16,987,714** | 16,987,714 |

Diluted earnings per share for the years ended 31 December 2018 and 2017 are not presented as there were no dilutive potential ordinary shares in issue during both years.

## 17. PROPERTY, PLANT AND EQUIPMENT

| | Buildings HK$'000 | Furniture and fixtures HK$'000 | Machinery and equipment HK$'000 | Motor vehicles HK$'000 | Vessels HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| **Cost** | | | | | | |
| At 1 January 2017 | 2,125 | 4,268 | 331 | 3,258 | 25,698 | 35,680 |
| Additions | – | 3 | 111 | – | 75 | 189 |
| At 31 December 2017 | 2,125 | 4,271 | 442 | 3,258 | 25,773 | 35,869 |
| Additions | – | 7 | 41 | – | – | 48 |
| **At 31 December 2018** | **2,125** | **4,278** | **483** | **3,258** | **25,773** | **35,917** |
| **Accumulated depreciation** | | | | | | |
| At 1 January 2017 | 1,067 | 3,274 | 126 | 819 | 1,070 | 6,356 |
| Provided for the year | 68 | 181 | 51 | 407 | 2,570 | 3,277 |
| At 31 December 2017 | 1,135 | 3,455 | 177 | 1,226 | 3,640 | 9,633 |
| Provided for the year | 68 | 182 | 56 | 407 | 2,577 | 3,290 |
| **At 31 December 2018** | **1,203** | **3,637** | **233** | **1,633** | **6,217** | **12,923** |
| **Carrying values** | | | | | | |
| **At 31 December 2018** | **922** | **641** | **250** | **1,625** | **19,556** | **22,994** |
| At 31 December 2017 | 990 | 816 | 265 | 2,032 | 22,133 | 26,236 |

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

| | |
|---|---|
| Buildings | Over the shorter of the term of the lease of 40-50 years or 2.5% |
| Furniture and fixtures | 5% - 25% |
| Machinery and equipment | 10% - 20% |
| Motor vehicles | 12.5% - 25% |
| Vessels | 10% |

At 31 December 2018 and 2017, the buildings of the Group are situated on land in the PRC.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 18. PREPAID LEASE PAYMENTS

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Analysed as: | | |
| Current asset | **99** | 99 |
| Non-current asset | **2,471** | 2,570 |
| | **2,570** | 2,669 |

The Group's prepaid lease payments represent payments for land use rights in the PRC.

## 19. GOODWILL

For the purpose of impairment testing, goodwill is allocated to the securities brokerage business, being one of the Group's cash generating units identified according to segment information.

The recoverable amount of the securities brokerage business was based on its value in use and was determined by the management of the Group. The calculation uses cash flow projections based on financial budgets approved by management covering a five-year period, and at discount rate of 12.97% (2017: 13.56%). Cash flows after the five-year period were assumed to have no growth.

The key assumption for the value in use calculation includes profit forecast. Such estimation is based on the historical performance and management's expectation of the development of the Group's securities brokerage business under the current market conditions. Management believes that any reasonably possible change in the assumption would not cause the aggregate carrying amount of the cash generating unit exceeds the aggregate recoverable amount of it. Therefore no impairment on goodwill was made for the year ended 31 December 2018.

## 20. CLUB DEBENTURES

The club debentures represent the club membership of three (2017: three) private clubs in Hong Kong. The directors are of opinion that it is not necessary to make any impairment on the club debentures since the quoted prices are higher than their carrying values.

## 21. AVAILABLE-FOR-SALE INVESTMENTS

| | 2017 |
|---|---|
| | *HK$'000* |
| Listed investments, at fair value: | |
| – Equity securities listed in Hong Kong | 44,259 |
| – Debt securities listed in Hong Kong or overseas with fixed interests ranging from 3.9% to 9.5% per annum and maturity dates ranging from 12 June 2018 to 23 January 2027 | 1,279,121 |
| | 1,323,380 |
| Analysed as: | |
| Current portion | 62,250 |
| Non-current portion | 1,261,130 |
| | 1,323,380 |

During the year ended 31 December 2017, the Group invested HK$1,256,299,000 for acquiring bonds issued by companies listed in Hong Kong and subsequently divested part of its investments in the amount of HK$108,373,000 with net cumulative gain of HK$979,000 previously accumulated in the investment revaluation reserve, the net cumulative gain was subsequently reclassified to profit or loss accordingly. In addition, debt securities in the amount of HK$780,000,000 were redeemed during the year with cumulative gain of HK$7,800,000 previously accumulated in the investment revaluation reserve being reclassified to profit or loss accordingly.

At 31 December 2017, AFS investments were stated at fair values. The fair values of the listed equity securities and listed debt securities were determined based on the quoted market closing prices available on the Stock Exchange or other recognised stock exchanges.

At 31 December 2017, debt securities of HK$744,281,000 were pledged as security for credit facility granted to the Group.

Upon initial application of HKFRS 9 during the year, AFS investments were reclassified to financial assets at FVTPL or debt instruments at FVTOCI which are detailed in Note 2.2(a).

The amount of the Group's AFS investments denominated in currencies other than functional currency of the Group is set out below:

| | 2017 |
|---|---|
| | *HK$'000* |
| US$ | 1,279,121 |

## 22. DEBT INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

| | 2018<br>*HK$'000* |
|---|---|
| Listed investments, at fair value: | |
| – Debt securities listed in Hong Kong or overseas with fixed interests ranging from 3.90% to 10.75% per annum and maturity dates ranging from 13 February 2019 to 23 January 2027 | **991,682** |
| Analysed as: | |
| Current portion | **3,822** |
| Non-current portion | **987,860** |
| | **991,682** |

During the year ended 31 December 2018, the Group invested HK$46,562,000 for acquiring bonds issued by companies listed in Hong Kong and subsequently, divested part of its investments in the amount of HK$128,785,000 with cumulative loss of HK$2,696,000 previously accumulated in the investment revaluation reserve, the cumulative loss was subsequently reclassified to profit or loss accordingly. In addition, debt securities in the amount of HK$62,493,000 were redeemed during the year with cumulative loss of HK$93,000 previously accumulated in the investment revaluation reserve being reclassified to profit or loss accordingly.

At 31 December 2018, debt instruments at FVTOCI were stated at fair values which were determined based on the quoted market closing prices available on the Stock Exchange or other recognised stock exchanges.

At 31 December 2018, debt securities of HK$828,005,000 were pledged as security for credit facilities granted to the Group.

Upon initial application of HKFRS 9 during the year, the Group provided impairment allowance of HK$15,298,000. Impairment allowance of HK$384,000 was provided for the current year.

The amount of the Group's debt instruments at FVTOCI denominated in currencies other than functional currency of the Group is set out below:

| | 2018<br>*HK$'000* |
|---|---|
| US$ | **991,682** |

Details of impairment assessment are set out in Note 36.

## 23. LOAN RECEIVABLES

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Fixed-rate loan receivables | **2,521,186** | 2,058,000 |
| Less: impairment allowance | **(11,800)** | – |
| | **2,509,386** | 2,058,000 |
| Analysed as: | | |
| Current portion | **2,477,681** | 2,047,196 |
| Non-current portion | **31,705** | 10,804 |
| | **2,509,386** | 2,058,000 |
| Analysed as: | | |
| Secured | **2,283,895** | 1,895,743 |
| Guaranteed | **209,537** | 35,000 |
| Unsecured | **15,954** | 127,257 |
| | **2,509,386** | 2,058,000 |

At 31 December 2018, the range of interest rates and maturity dates attributed to the Group's loan receivables was 3% to 18% (2017: 3% to 24%) per annum and from 18 January 2019 to 2 May 2021 (2017: 19 January 2018 to 27 October 2020) respectively.

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

Upon initial application of HKFRS 9 during the year, the Group provided impairment allowance of HK$11,800,000. No impairment allowance was provided for the current year.

At 31 December 2018, the carrying amount of the Group's loan receivables balance was HK$2,509,386,000, and none of the loan receivables was past due at the reporting date. The directors of the Company are of the view that there have been no significant increase in credit risk nor default risk of the loan receivables since their initial recognition.

## 23. LOAN RECEIVABLES (continued)

The exposure of the Group's fixed-rate loan receivables to interest rate risks and their contractual maturity dates are as follows:

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Fixed-rate loan receivables: | | |
| Within one year | **2,477,681** | 2,047,196 |
| In more than one year but not more than two years | **28,409** | – |
| In more than two years but not more than five years | **3,296** | 10,804 |
| | **2,509,386** | 2,058,000 |

Details of impairment assessment are set out in Note 36.

## 24. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Listed investments at fair value: | | |
| – Equity securities listed in Hong Kong *(Note (i))* | **2,044,803** | 1,045,551 |
| Unlisted investments at fair value: | | |
| – Convertible securities with fixed interest of 8% (2017: ranging from 8% to 10%) per annum and maturity date at 15 June 2019 (2017: ranging from 26 October 2018 to 15 June 2019) *(Note (ii))* | **47,608** | 224,751 |
| | **2,092,411** | 1,270,302 |
| Analysed as: | | |
| Current portion | **2,068,030** | 1,270,302 |
| Non-current portion | **24,381** | – |
| | **2,092,411** | 1,270,302 |

## 24. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (continued)

*Notes:*

*(i)* The fair values of the listed equity securities were determined based on the quoted market closing prices available on the Stock Exchange.

*(ii)* The fair values of the unlisted convertible securities were determined based on the binomial option pricing model with some key inputs of the model, namely risk free rate, expected volatility, dividend yield and discount rate being obtained by referencing to listed bonds with similar rating.

At 31 December 2018, equity securities of HK$1,713,361,000 (2017: HK$19,349,000) were pledged as security for credit facility granted to the Group.

## 25. INVENTORIES

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Electronic components | **6,108** | 6,641 |

## 26. TRADE AND OTHER RECEIVABLES

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Trade receivables of securities brokerage business: | | |
| – Cash clients *(Note (i))* | **11,022** | 16,942 |
| – Margin clients *(Note (i))* | **21,625** | – |
| Trade receivables of trading business *(Note (i))* | **–** | 2,016 |
| Interest receivables *(Note (ii))* | **19,837** | 24,295 |
| Other receivables *(Note (iii))* | **10,426** | 13,379 |
| Convertible securities receivables *(Note (iv))* | **120,000** | – |
| | **182,910** | 56,632 |

## 26. TRADE AND OTHER RECEIVABLES (continued)

*Notes:*

*(i)* At 31 December 2018 and 1 January 2018, trade receivables from contracts with customers amounted to HK$32,647,000 and HK$18,958,000 respectively.

For securities brokerage business, the normal settlement terms of trade receivables from cash clients are two days after trade date. The trade receivables from cash and margin clients with total carrying amount of HK$32,647,000 was not past due (2017: HK$16,942,000 was neither past due nor impaired) at the end of the reporting period.

Margin clients are required to pledge securities as collateral to the Group in order to obtain the credit facilities for securities trading. The amount of credit facilities granted to them is determined based on a discount on the market value of securities accepted by the Group. Any excess in the lending ratio will trigger a margin call which the clients have to make good the shortfall. At 31 December 2018, the market value of securities pledged by clients to the Group as collateral against margin client receivables was HK$133,139,000 (2017: nil).

For trading business, the Group normally allows credit period for trade customers ranging from 30 to 180 days (2017: 30 to 180 days). The following is an aged analysis of trade receivables, net of allowance for doubtful debts, presented based on the invoice dates, which approximated the respective revenue recognition dates, at the end of the reporting period:

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| 0 – 180 days | – | 2,016 |

At 31 December 2017, the trade receivables were neither past due nor impaired and were related to customers good credit quality.

## 26. TRADE AND OTHER RECEIVABLES (continued)

*Notes: (continued)*

*(ii)* Interest receivables of HK$19,837,000 (2017: HK$24,295,000) were due from bond issuers and banks at the end of the reporting period. The management considers that the credit risk of such receivables is limited because the counterparties are banks and bond issuers of good reputation.

*(iii)* Included in other receivables were unrestricted deposits of HK$6,157,000 (2017: HK$5,158,000) placed with securities brokers in relation to securities brokerage activities. The remaining balance of other receivables represented mainly dividends receivable, prepayment and deposits for office use.

*(iv)* Convertible securities receivables represented the outstanding principal of a convertible bond subscribed by the Group, which was due for repayment before the year end as the Group had not exercised the conversion option. The full amount of the receivables was subsequently settled after the year end.

The amount of the Group's trade and other receivables denominated in currencies other than functional currency of the Group is set out below:

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| US$ | – | 2,016 |

For the years ended 31 December 2018 and 2017, the Group performed impairment assessment on trade and other receivables and concluded that the probability of defaults of the counterparties were insignificant and accordingly, no impairment was recognised on trade and other receivables at the end of the reporting periods. Details of impairment assessment are set out in Note 36.

## 27. BANK BALANCES AND CASH/PLEDGED BANK DEPOSITS

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Bank balances and cash: | | |
| – General accounts and cash *(Note (i))* | **162,504** | 347,753 |
| – Client accounts *(Note (ii))* | **51,392** | 109,946 |
| | **213,896** | 457,699 |

*Notes:*

*(i)* The accounts comprise cash and short-term bank deposits with an original maturity of three months or less held by the Group. The amounts carried interest ranging from 0.04% to 2.50% (2017: 0.01% to 1.50%) per annum.

*(ii)* The Group's securities brokerage business receives and holds money deposited by clients during the course of conducting its regulated activities in its ordinary course of business. Such client's monies are maintained in a segregated bank account. The Group has recognised the corresponding account payables to respective clients.

The amount of the Group's bank balances and cash denominated in currencies other than functional currency of the Group is set out below:

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| RMB | **432** | 432 |
| US$ | **62,153** | 197,612 |

Pledged bank deposits represented deposits pledged to banks to secure the banking facilities granted to the Group. At 31 December 2018, deposit amounting to HK$28,311,000 (2017: HK$27,740,000) was pledged to a bank to comply with the minimum deposit requirement for the issuance of letters of credit and deposit amounting to HK$3,083,000 (2017: HK$3,081,000) was pledged to another bank to secure the credit facility for settlement of the securities brokerage activities. The pledged bank deposits will be released upon settlement of the relevant letters of credit and termination of the credit facility in relation to settlement of the securities brokerage activities and are therefore classified as current assets.

## 28. TRADE AND OTHER PAYABLES

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Trade payables of securities brokerage business: | | |
| – Cash clients | **76,933** | 155,801 |
| – Hong Kong Securities Clearing Company Limited ("HKSCC") | **10,366** | 5,799 |
| Trade payables of trading business | **2,049** | 9,277 |
| Accrued charges and other payables | **7,450** | 15,315 |
| Interest payables | **13,022** | 5,519 |
| | **109,820** | 191,711 |

For securities brokerage business, the normal settlement terms of trade payables to cash clients and HKSCC are two days after trade date.

For trading business, the following is an aged analysis of trade payables, presented based on the invoice dates, at the end of the reporting period:

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| 0 – 180 days | **2,049** | 4,640 |
| Over 180 days | **–** | 4,637 |
| | **2,049** | 9,277 |

The average credit period is within 30 days for both years.

## 29. BORROWINGS

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Short-term secured bank borrowings *(Note (i))* | **288,600** | 430,756 |
| Margin financing *(Note (ii))* | **414,671** | – |
| | **703,271** | 430,756 |

*Notes:*

*(i)* The amount carried interest at London Interbank Offered Rate ("LIBOR") plus certain basis points per annum and was repayable within one year. The loan agreement of the secured bank borrowings contains a repayment on demand clause. The borrowings were secured by certain debt securities.

*(ii)* The amount carried interest at Hong Kong prime rate plus certain basis points per annum and secured by certain debt and equity securities held in a margin securities account.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 30. NOTES PAYABLE

The movement of the unsecured notes payable during the year is as follows:

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| At the beginning of the year | **1,492,168** | 1,470,919 |
| Redemption of notes *(Note (i))* | **(200,000)** | – |
| Issue of notes *(Note (ii))* | **200,000** | – |
| Effective interest charged *(Note 10)* | **135,910** | 126,906 |
| Interest paid/payable | **(127,753)** | (105,657) |
| At the end of the year | **1,500,325** | 1,492,168 |
| Analysed as: | | |
| Current portion | **–** | 1,492,168 |
| Non-current portion | **1,500,325** | – |
| | **1,500,325** | 1,492,168 |

*Notes:*

*(i)* In December 2016, the Company issued 2-year unsecured notes with nominal value of HK$1,500,000,000 denominated in Hong Kong dollars. The interest for the notes was 7.00% per annum and 8.00% per annum for the first and second year respectively. The effective interest rate of the notes was 8.57% per annum.

In December 2018, notes with nominal value of HK$200,000,000 were redeemed. The Company executed a supplemental deed poll to extend the maturity date of the remaining notes with nominal value of HK$1,300,000,000 for further two years to 16 December 2020. The interest for the notes is 9.50% per annum and 10.00% per annum for the third and fourth year respectively. The effective interest rate of the notes is 9.74% per annum. The notes carry option for the Company to early redeem the notes, by giving not less than 15 days' nor more than 30 days' notice ("Early Redemption Notice") to the noteholders on the third anniversary date and/or 16 June 2020, in whole or in part at 100% of the principal amount outstanding, together with interest accrued and unpaid at the date fixed for redemption.

*(ii)* In August 2018, the Company issued a new tranche of 2-year unsecured notes with nominal value of HK$200,000,000 denominated in Hong Kong dollars. The interest for the notes is 9.50% per annum and 10.00% per annum for the first and second year respectively. The effective interest rate of the notes is 9.74% per annum. The notes carry option for the Company to early redeem the notes, by giving Early Redemption Notice to the noteholders on the first anniversary date, in whole or in part at 100% of the principal amount outstanding, together with interest accrued and unpaid at the date fixed for redemption.

## 31. DEFERRED TAX LIABILITIES

The movement of deferred tax liabilities for the year is as follows:

| | Allowance for ECL HK$'000 | Tax losses HK$'000 | Temporary difference related to net unrealised gain/loss on financial assets at FVTPL and debt instruments at FVOCI HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| At 1 January 2017 | – | – | 5,262 | 5,262 |
| Charged to the profit or loss *(Note 11)* | – | – | 29,591 | 29,591 |
| At 31 December 2017 | – | – | 34,853 | 34,853 |
| (Credited) charged to the profit or loss *(Note 11)* | (1,947) | (101,216) | 171,726 | 68,563 |
| Credited to the other comprehensive income | (2,588) | – | (16,586) | (19,174) |
| **At 31 December 2018** | **(4,535)** | **(101,216)** | **189,993** | **84,242** |

At 31 December 2018, the Group had unused tax losses arising in Hong Kong of HK$873,572,000 (2017: HK$633,293,000), subject to agreement of the Hong Kong Inland Revenue Department, the unused tax losses are available indefinitely for offset against future profits of the companies in which the losses arose. Among the unused tax losses, an amount of HK$613,430,000 (2017: nil) had been recognised as deferred tax assets. No deferred tax asset had been recognised in respect of the remaining unused tax losses of HK$260,142,000 (2017: HK$633,293,000) due to the unpredictability of future profit streams. The tax losses may be carried forward indefinitely.

## 32. SHARE CAPITAL OF THE COMPANY

| | Number of shares '000 | Share capital HK$'000 |
|---|---|---|
| Issued and fully paid ordinary shares: | | |
| At 1 January 2017, 31 December 2017, 1 January 2018 and **31 December 2018** | **16,987,714** | **3,012,877** |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 33. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

| | 2018 *HK$'000* | 2017 *HK$'000* |
|---|---|---|
| **Non-current assets** | | |
| Property, plant and equipment | 1,548 | 1,776 |
| Prepaid lease payments | 2,471 | 2,570 |
| Investments in subsidiaries | – | – |
| Amounts due from subsidiaries | 666,086 | – |
| Club debentures | 475 | 475 |
| Total non-current assets | 670,580 | 4,821 |
| **Current assets** | | |
| Prepaid lease payments | 99 | 99 |
| Amounts due from subsidiaries | 4,224,318 | 4,561,118 |
| Income tax recoverable | 3,004 | 2,587 |
| Other receivables, deposits and prepayments | 1,338 | 1,077 |
| Bank balances and cash | 3,871 | 13,779 |
| Total current assets | 4,232,630 | 4,578,660 |
| **Current liabilities** | | |
| Accrued charges and other payables | 15,951 | 10,862 |
| Amounts due to subsidiaries | 368,812 | 354,854 |
| Notes payable | – | 1,492,168 |
| Total current liabilities | 384,763 | 1,857,884 |
| **Net current assets** | 3,847,867 | 2,720,776 |
| **Total assets less current liabilities** | 4,518,447 | 2,725,597 |
| **Non-current liability** | | |
| Notes payable | 1,500,325 | – |
| **Net assets** | 3,018,122 | 2,725,597 |
| **Capital and reserves** | | |
| Share capital *(Note 32)* | 3,012,877 | 3,012,877 |
| Reserves *(Note)* | 5,245 | (287,280) |
| **Total equity** | 3,018,122 | 2,725,597 |

The Company's statement of financial position has been approved and authorised for issue by the Board on 27 March 2019 and is signed on its behalf by:

| | |
|---|---|
| **Dr. Or Ching Fai** | **Sue Ka Lok** |
| *Director* | *Director* |

## 33. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (continued)

*Note:* Movements in the Company's reserves

| | (Accumulated losses) retained profits *HK$'000* |
|---|---|
| At 1 January 2017 | (305,038) |
| Profit for the year and total comprehensive income for the year | 17,758 |
| At 31 December 2017 | (287,280) |
| Profit for the year and total comprehensive income for the year | 292,525 |
| **At 31 December 2018** | **5,245** |

## 34. SHARE-BASED PAYMENT TRANSACTIONS

### Share option scheme

The existing share option scheme of the Company (the "Share Option Scheme") was adopted by the Company at the annual general meeting of the Company held on 10 June 2011. Unless otherwise cancelled or amended, the Share Option Scheme will be valid and effective for a period of ten years commencing on the date of adoption. The purpose of the Share Option Scheme is to enable the Company to grant options to participants as incentives or rewards for their contribution to the Company and/or the subsidiaries of the Company. Eligible participants of the Share Option Scheme include any employees (whether full time or part time), executives or officers of the Company or any of the subsidiaries of the Company (including executive and non-executive directors of the Company) and any business consultants, agents, financial or legal advisers who the Board considers, in its sole discretion, will contribute or have contributed to the Company or any of the subsidiaries of the Company. The offer of a grant of share options may be accepted until the 21st days inclusive of, and from, the date of grant, provided that no such offer shall be open for acceptance after the expiry of the period of ten years commencing on the adoption date of the Share Option Scheme or after the Share Option Scheme has been terminated. The amount payable by each grantee of options to the Company on acceptance of the offer for the grant of options is HK$1.00.

The subscription price for the shares on the exercise of options under the Share Option Scheme shall be a price as determined by the Board in its absolute discretion at the time of the grant of the relevant option (and shall be stated in the letter containing the offer of the grant of the option) but in any case the subscription price shall not be less than the higher of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a trading day; (ii) the average closing price of the shares as stated in the Stock Exchange's daily quotations sheets for the 5 trading days immediately preceding the date of grant; or (iii) the nominal value of a share (if any). The exercise period of the share options granted is determinable by the Board but in any event, not longer than ten years from the date of grant.

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

### Share option scheme (continued)

The total number of shares issued and to be issued upon exercise of the options granted to each participant, together with all options granted and to be granted to the participant under any other share option scheme(s) of the Company within the 12-month period immediately preceding the proposed date of grant (including exercised, cancelled and outstanding options) shall not exceed 1% of the total number of the shares in issue at the proposed date of grant. Any further grant of options to a participant in excess of the 1% limit shall be subject to the shareholders' approval of the Company with such participant and the participant's associates abstaining from voting.

The limit on the total number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option scheme(s) of the Company must not exceed 30% of the total number of the shares in issue from time to time. In addition, the total number of the shares which may be issued upon exercise of all options to be granted under the Share Option Scheme, together with all options to be granted under any other share option scheme(s) of the Company (excluding lapsed options), must not represent more than 10% of the total number of the shares in issue at the date of approval of the Share Option Scheme (the "Scheme Mandate Limit") or at the date of the approval of the refreshed Scheme Mandate Limit as the case maybe.

No share options has been granted under the Share Option Scheme since its adoption and up to the date of this annual report. In the annual general meeting of the Company held on 28 June 2016, the shareholders of the Company approved the refreshment of the Scheme Mandate Limit (the "Scheme Mandate Limit Refreshment Approval"). The total number of shares of the Company available for issue under the Share Option Scheme is 1,698,771,383 shares, representing 10% of the issued shares of the Company at the date of the Scheme Mandate Limit Refreshment Approval and the issued shares of the Company at the date of this annual report.

## 35. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of debts, which include the borrowings as disclosed in Note 29, notes payable as disclosed in Note 30 and equity attributable to owners of the Company, comprising issued share capital and retained profits/accumulated losses.

The directors of the Company review the capital structure regularly. As part of this review, the directors of the Company consider the cost of capital and other sources of funds other than issuance of shares, including the borrowings and notes payable. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, new share issues, raising or repayment of borrowings.

## 36. FINANCIAL INSTRUMENTS

### a. Categories of financial instruments

*Statement of financial position*

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Financial assets** | | |
| Financial assets at amortised cost | **2,933,654** | – |
| Debt instruments at FVTOCI | **991,682** | – |
| Financial assets at FVTPL | **2,092,411** | 1,270,302 |
| Loans and receivables (including cash and cash equivalents) | **–** | 2,599,482 |
| AFS investments | **–** | 1,323,380 |
| **Financial liabilities** | | |
| Financial liabilities at amortised cost | **2,305,967** | 2,099,320 |

### b. Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, loan receivables, pledged bank deposits, bank balances and cash, debt instruments at FVTOCI, financial assets at FVTPL, trade and other payables, borrowings and notes payable. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

*Market risk*

*(i) Interest rate risk management*

The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk. However, the management of the Group will consider hedging significant interest rate risk exposure if the need arises.

The Group is exposed to fair value interest rate risk in relation to debt securities classified as debt instruments at FVTOCI and financial assets at FVTPL as set out in Notes 22 and 24.

The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances and borrowings (as set out is Notes 27 and 29 respectively). It is the policy of the Group to keep its borrowings at floating rate of interest so as to minimise the fair value interest rate risk. Sensitivity analysis was prepared, except for bank balances, since the directors consider the amount involved is not significant.

## 36. FINANCIAL INSTRUMENTS (continued)

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

*Market risk (continued)*

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

The exposures of the Group to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note. The cash flow interest rate risk of the Group is mainly concentrated on the fluctuation of LIBOR arising from bank borrowings and Hong Kong prime rate arising from margin financing.

Total interest income from financial assets that are measured at amortised cost, at FVTOCI and at FVTPL is as follows:

| | **2018** *HK$'000* |
|---|---|
| Interest revenue | |
| Financial assets at amortised cost | **265,386** |
| Financial assets at FVTOCI | **100,981** |
| Financial assets at FVTPL | **4,036** |
| Other income | |
| Financial assets at amortised cost | **674** |
| | **371,077** |

Total interest income from financial assets that are measured at amortised cost and at FVTPL and AFS investments is as follows:

| | 2017 *HK$'000* |
|---|---|
| Interest revenue | |
| Loans and receivables | 181,052 |
| AFS investments | 65,937 |
| Financial assets at FVTPL | 7,824 |
| Other income | |
| Loans and receivables (including bank balances and cash) | 4,026 |
| | 258,839 |

## 36. FINANCIAL INSTRUMENTS (continued)

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

*Market risk (continued)*

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

Interest expense on financial liabilities not measured at fair value through profit or loss:

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Financial liabilities at amortised cost | **162,053** | 134,890 |

*Sensitivity analysis for interest rate risk*

The sensitivity analysis below has been determined based on the exposure to interest rates for the bank borrowings and margin financing at the end of the reporting period. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 50 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points higher/lower and all other variables were held constant, profit after tax for the year ended 31 December 2018 of the Group would decrease/increase by HK$2,936,000 (2017: HK$1,798,000) as a result of changes in interest rate of the borrowings.

In management's opinion, the above sensitivity analysis is for illustrative purpose only and is unrepresentative of the inherent interest rate risk facing by the Group as the year end exposure does not reflect the exposure during the year.

(ii) *Price risk management*

The Group is exposed to equity and other price risks through its investments in debt instruments at FVTOCI and financial assets at FVTPL. The management manages this exposure by maintaining a portfolio of investments with different risks. The Group's equity and other price risks are mainly concentrated on listed equity securities and debt securities.

The sensitivity analyses have been determined based on the exposure to equity price risks at the reporting date. For sensitivity analysis purpose, the sensitivity rate is 10% (2017: 10%) in the current year.

## 36. FINANCIAL INSTRUMENTS (continued)

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

*Market risk (continued)*

*(ii) Price risk management (continued)*

If the prices of the respective listed debt and equity securities had been 10% (2017: 10%) higher/lower:

- profit after tax for the year ended 31 December 2018 would increase/decrease by HK$170,741,000 and HK$3,975,000 (2017: HK$87,304,000 and HK$18,767,000) as a result of the changes in fair value of listed equity securities and unlisted convertible securities included in financial assets of FVTPL respectively; and

- total comprehensive income for the year ended 31 December 2018 would increase/decrease by HK$82,806,000 (2017: HK$110,502,000) as a result of the changes in fair values of listed debt instruments at FVTOCI (2017: listed debt and equity securities included in AFS investments).

The overall increase of the Group's sensitivity to equity price risks during the year was mainly due to the increase in the investment in listed equity securities.

In management's opinion, the above sensitivity analysis is for illustrative purpose only and is unrepresentative of the inherent equity price risk facing by the Group as the year end exposure does not reflect the exposure during the year.

*(iii) Foreign currency risk management*

Most of the Group's transactions are denominated in either US$ or HK$.

The Group is mainly exposed to foreign currency risk in relation to US$ arising from foreign currency bank balances and cash, AFS investments, debt instruments at FVTOCI and trade and other receivables.

The carrying amount of the major foreign currency denominated monetary assets at the reporting date is as follows:

| | Assets | |
|---|---|---|
| | **2018** | 2017 |
| | ***HK$'000*** | *HK$'000* |
| US$ | **1,053,835** | 1,478,749 |

## 36. FINANCIAL INSTRUMENTS (continued)

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

*Market risk (continued)*

*(iii) Foreign currency risk management (continued)*

Under the pegged exchange rate system, the financial impact on exchange difference between HK$ and US$ will be immaterial as US$ denominated monetary assets are held by group entities having HK$ as their functional currency, and therefore no sensitivity analysis has been prepared.

The Group has not formulated a policy to hedge the foreign currency risk. No sensitivity analysis was prepared since the directors consider the amount involved is not significant.

*Credit risk and impairment assessment*

At 31 December 2018, except for the credit risks associated with loan receivables of money lending business and trade receivables from margin clients of securities brokerage business, which are mitigated by the security over collaterals and/or equity securities, the Group does not hold any collateral or other credit enhancements to cover the credit risks associated with other financial assets whose carrying amounts best represent the maximum exposure to credit risk. Due to the failure of the counterparties to discharge their obligation, the Group's maximum exposure to credit risk will be the financial loss of the carrying amount of the respective financial assets recognised in the consolidated statement of financial position.

*Trade receivables*

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. Before accepting any new customer, the Group assesses the potential customer's credit quality and defines its credit limit. Credit sales are made to customers with appropriate credit history. Credit limits attributed to customers are reviewed regularly. In addition, the Group performs impairment assessment under ECL model upon application of HKFRS 9 (2017: incurred loss model) on trade balances individually. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

At 31 December 2018, 73% (2017: 75%) of the Group's trade receivables was due from four (2017: one) counterparties(y) within the securities brokerage business. The management performs periodic evaluations on customer to ensure the Group's exposure to bad debts is not significant. The experience in collection of trade receivables from customer of the securities brokerage business falls within the expectation of the directors. The management has continued to adopt business initiatives to enlarge the customer base of the securities brokerage business in order to reduce the reliance on the several major customers, and also mitigate concentrations of credit risk.

## 36. FINANCIAL INSTRUMENTS (continued)

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

*Credit risk and impairment assessment (continued)*

*Trade receivables (continued)*

The advance to customers in margin financing have been reviewed by the management to assess impairment allowances which based on evaluation of collectability and on management's judgement, including the current creditworthiness, past collection statistics of individual account and collaterals held by the Group. There was no impaired debt from margin financing at 31 December 2018 (2017: nil).

*Loan receivables*

The Group has a policy for assessing the impairment on loan receivables on an individual basis. The assessment includes evaluation of collectability and aged analysis of the loan receivables and on management's judgement on creditworthiness, collateral and past collection history of each borrower.

In determining the recoverability of the loan receivables, the Group will consider the change in the credit quality of the loan receivables, if any, from the date the loans were initially granted up to the reporting date. This includes assessing the credit history of the borrowers, such as past experience of financial difficulties or default in payments, and current market conditions.

The total carrying amount of the loan receivables amounted to HK$2,509,386,000 (2017: HK$2,058,000,000) at the reporting date. The Group considered the secured loans of HK$2,283,895,000 (2017: HK$1,895,743,000) are recoverable given the fair values of the collaterals are sufficient to cover the entire secured loan receivables collectively, as for the unsecured and guaranteed loans of HK$225,491,000 (2017: HK$162,257,000), the Group considered the amounts are recoverable as the loans were borrowed by borrowers with good credit history.

The Group is exposed to credit risk in respect of its loan receivables. At 31 December 2018, the carrying amount of loan receivables was HK$2,509,386,000 (2017: HK$2,058,000,000), the Group had concentration of credit risk as 50% (2017: 56%) of the total loan receivables at 31 December 2018 was due from six (2017: five) borrowers. Nevertheless, the whole amount is considered recoverable given there are sufficient collaterals to cover the entire balance. The Group seeks to maintain strict control over its outstanding loan receivables to minimise credit risk. The management has a credit policy in place and the exposures to the credit risk are monitored on an ongoing basis. Impairment allowances on outstanding loan receivables are determined by an evaluation of financial background, as well as financial condition of the borrower and the anticipated receipts for that individual loan, at the end of the reporting period.

## 36. FINANCIAL INSTRUMENTS (continued)

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

***Credit risk and impairment assessment (continued)***

*Loan receivables (continued)*

The movement of impairment allowance for loan receivables for the year is as follows:

| | **Impairment allowance of loan receivables** |
|---|---|
| | ***HK$'000*** |
| At 31 December 2017 | – |
| Impairment allowance recognised | 11,800 |
| **At 1 January 2018 (restated) and 31 December 2018** | **11,800** |

*Debt instruments at FVTOCI*

The Group's debt instruments at FVTOCI mainly comprise instruments that have a low risk of default and the counterparties have a strong capacity to repay (e.g. financial instruments that are of investment grade or issuer with good credit history and capacity to repay etc). During the year ended 31 December 2018, expected credit losses on debt instruments at FVTOCI amounting to HK$384,000 (2017: nil) was recognised in the profit or loss.

*Concentration of credit risk*

The Group has concentration of credit risk on unlisted convertible securities as they are issued by one (2017: two) independent third party(ies). However, the management considers that the credit risk is limited as they are issued by companies of good reputation.

The Group has concentration of credit risk on investment in listed securities as 66% (2017: 57%) of the total financial assets at FVTPL was equity investment in one (2017: four) listed issuer(s). However, the management considers that the credit risk is limited as the equity securities are listed on the Stock Exchange with good liquidity.

At 31 December 2018, the Group had concentration of credit risk as deposits placed at three (2017: two) financial institutions for the Group's investment in securities business of HK$5,379,000 (2017: HK$4,520,000) represented 87% (2017: 88%) of the Group's deposit placed with securities brokers. The management considers that the credit risk on such balances placed at financial institutions is limited because they are of good reputation.

Other than concentration of credit risk on pledged bank deposits and bank balances and cash which are deposited with several banks with high credit-ratings, the Group does not has any other significant concentration of credit risk.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 36. FINANCIAL INSTRUMENTS (continued)

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

*Credit risk and impairment assessment (continued)*

The Group's internal credit risk grading assessment comprises the following categories:

| Internal credit rating | Description | Trade receivables | Financial assets other than trade receivables |
|---|---|---|---|
| Low risk | The counterparty has a low risk of default and does not have any past-due amounts and history of default. | Lifetime ECL – not credit-impaired | 12m ECL |
| Medium risk | Overdue within 30 days or more than 30 days with reasonable and supportable information that demonstrates otherwise. Debtor frequently settles after due dates. | Lifetime ECL – not credit-impaired | 12m ECL |
| High risk | Overdue more than 30 days but within 90 days without any reasonable and supportable information that demonstrates otherwise. There have been significant increases in credit risk since initial recognition through information developed internally or externally. | Lifetime ECL – not credit-impaired | Lifetime ECL – not credit-impaired |
| Loss | Overdue more than 90 days with reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate. | Lifetime ECL – credit-impaired | Lifetime ECL – credit-impaired |
| Write-off | There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery. | Amount is written off | Amount is written off |

## 36. FINANCIAL INSTRUMENTS (continued)

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

*Credit risk and impairment assessment (continued)*

The tables below detail the credit risk exposures of the Group's financial assets, which are subject to ECL assessment:

| 2018 | *Notes* | External credit rating | Internal credit rating | 12m or lifetime ECL | Gross carrying amount *HK$'000* |
|---|---|---|---|---|---|
| **Debt instruments at FVTOCI** | | | | | |
| Investments in listed bonds | *22* | B1 to A2 | N/A | 12m ECL | 741,173 |
| | | N/A | *(Note (i))* | 12m ECL | 250,509 |
| **Financial assets at amortised cost** | | | | | |
| Loans receivables *(Note (ii))* | *23* | N/A | Low risk | 12m ECL | 1,835,648 |
| | | N/A | Medium risk | 12m ECL | 685,538 |
| Other receivables | *26* | N/A | *(Note (iii))* | 12m ECL | 150,263 |
| Trade receivables | *26* | N/A | *(Note (iv))* | Lifetime ECL | 32,647 |
| Pledged bank deposits | *27* | A to AA- | N/A | 12m ECL | 31,394 |
| Bank balances | *27* | BBB to AA- | N/A | 12m ECL | 213,896 |

*Notes:*

*(i)* Debt instruments at FVTOCI are listed bonds with the credit loss allowance measured on 12m ECL basis as the credit risk on financial instrument has not increased significantly since initial recognition. The Group assessed the ECL for debt instruments at FVTOCI by reference to credit rating of the bonds given by rating agencies or credit spread and yield to maturity of bonds issued within similar industries, macroeconomic factors affecting the respective industry for each issuer, corporate historical default, loss rate and exposure of default of each bond investment.

*(ii)* As part of the Group's credit risk management, the Group applies internal credit rating for its borrowers. The ECL rates are estimated based on its credit rating, past and current default record and current past due exposure of the borrower.

*(iii)* For the purposes of internal credit risk management, the Group uses past due information to assess whether credit risk has increased significantly since initial recognition.

*(iv)* For trade receivables, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance on lifetime ECL basis.

## 36. FINANCIAL INSTRUMENTS (continued)

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

*Credit risk and impairment assessment (continued)*

The following table shows reconciliation of loss allowances that have been recognised for debt instruments of FVTOCI and loan receivables.

| | 12m ECL for debt instruments at FVTOCI *HK$'000* | 12m ECL for loans receivables *HK$'000* | Total *HK$'000* |
|---|---|---|---|
| At 31 December 2017 under HKAS 39 | – | – | – |
| Adjustment upon application of HKFRS 9 | 15,298 | 11,800 | 27,098 |
| At 1 January 2018 (restated) | 15,298 | 11,800 | 27,098 |
| Changes due to financial instruments recognised at 1 January: | | | |
| – Impairment losses recognised | 384 | – | 384 |
| **At 31 December 2018** | **15,682** | **11,800** | **27,482** |

During the year ended 31 December 2018, there is insignificant impairment allowance for trade receivables based on the simplified approach. Impairment allowance of HK$15,682,000 and HK$11,800,000 was made for debt instruments at FVTOCI and loans receivables respectively.

*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 following tables show details of the non-derivative financial assets and liabilities of the Group. For non-derivative financial assets, the table has been drawn up based on the undiscounted cash flows of the financial assets including interest that will be earned on those assets. For non-derivative financial liabilities, the table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate in effect at the end of the reporting period.

## 36. FINANCIAL INSTRUMENTS (continued)

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

*Liquidity risk (continued)*

*Liquidity tables*

| | Weighted average effective interest rate | Less than 1 month | 1 to 3 months | 3 months to 1 year | 1 to 2 years | Total undiscounted cash flows | Carrying amount |
|---|---|---|---|---|---|---|---|
| | % | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **At 31 December 2018** | | | | | | | |
| **Non-derivative financial assets** | | | | | | | |
| Financial assets at amortised cost | 9.8 | 475,293 | 309,196 | 2,322,299 | 35,395 | 3,142,183 | 2,933,654 |
| Debt instruments at FVTOCI | – | 991,682 | – | – | – | 991,682 | 991,682 |
| Financial assets at FVTPL | – | 2,092,411 | – | – | – | 2,092,411 | 2,092,411 |
| | | 3,559,386 | 309,196 | 2,322,299 | 35,395 | 6,226,276 | 6,017,747 |
| **Non-derivative financial liabilities** | | | | | | | |
| Trade and other payables | – | 102,371 | – | – | – | 102,371 | 102,371 |
| Borrowings | 5.1 | 706,329 | – | – | – | 706,329 | 703,271 |
| Notes payable | 9.7 | – | 9,578 | 132,922 | 1,650,037 | 1,792,537 | 1,500,325 |
| | | 808,700 | 9,578 | 132,922 | 1,650,037 | 2,601,237 | 2,305,967 |
| At 31 December 2017 | | | | | | | |
| **Non-derivative financial assets** | | | | | | | |
| Loan and other receivables (including cash and cash equivalents) | 9.1 | 701,238 | 555,772 | 1,458,181 | 12,046 | 2,727,237 | 2,599,482 |
| AFS investments | – | 1,323,380 | – | – | – | 1,323,380 | 1,323,380 |
| Financial assets at FVTPL | – | 1,270,302 | – | – | – | 1,270,302 | 1,270,302 |
| | | 3,294,920 | 555,772 | 1,458,181 | 12,046 | 5,320,919 | 5,193,164 |
| **Non-derivative financial liabilities** | | | | | | | |
| Trade and other payables | – | 176,396 | – | – | – | 176,396 | 176,396 |
| Borrowings | 2.3 | 431,613 | – | – | – | 431,613 | 430,756 |
| Notes payable | 8.6 | – | – | 1,620,000 | – | 1,620,000 | 1,492,168 |
| | | 608,009 | – | 1,620,000 | – | 2,228,009 | 2,099,320 |

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 36. FINANCIAL INSTRUMENTS (continued)

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

*Liquidity risk (continued)*

*Liquidity tables (continued)*

The cash flow of variable interest rate instruments is based on the rate outstanding at the end of the reporting period.

The amounts included above for variable interest rate instruments for non-derivative financial liabilities are subject to change if changes in variable interest rates differ to those interest rates in effect determined at the end of the reporting period.

### c. Fair value measurements of financial instruments

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

Some of the Group's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used).

| Financial assets | Fair value at | | Fair value hierarchy | Valuation technique(s) and key input(s) | Significant unobservable inputs |
|---|---|---|---|---|---|
| | **31 December 2018 *HK$'000*** | 31 December 2017 *HK$'000* | | | |
| **(i) Financial assets at FVTPL** | | | | | |
| Listed equity securities | **2,044,803** | 1,045,551 | Level 1 | Quoted bid prices in an active market | N/A |
| Unlisted convertible securities | **47,608** | 224,751 | Level 3 | Binomial option pricing model with the key inputs of risk free rate, expected volatility, dividend yield and discount rate obtained by referencing to listed bonds with similar rating | *Note* |
| **(ii) Debt instruments at FVTOCI** | | | | | |
| Listed debt securities | **991,682** | – | Level 1 | Quoted bid prices in active markets | N/A |
| **(iii) AFS investments** | | | | | |
| Listed equity securities | **-** | 44,259 | Level 1 | Quoted bid price in an active market | N/A |
| Listed debt securities | **-** | 1,279,121 | Level 1 | Quoted bid prices in active markets | N/A |

*Note:* For the unlisted convertible securities, the most significant unobservable input is the discount rate. If the discount rate to the valuation model was 0.5% higher/lower while the other variables were held constant, the total carrying amount of the unlisted convertible securities would decrease/increase by HK$24,000 and HK$54,000 (2017: HK$597,000 and HK$601,000) respectively.

## 36. FINANCIAL INSTRUMENTS (continued)

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

*Fair value hierarchy*

| | Level 1 HK$'000 | Level 2 HK$'000 | Level 3 HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| **At 31 December 2018** | | | | |
| **Financial assets at FVTPL** | | | | |
| Listed equity securities | **2,044,803** | **–** | **–** | **2,044,803** |
| Unlisted convertible securities | **–** | **–** | **47,608** | **47,608** |
| **Debt instruments at FVTOCI** | | | | |
| Listed debt securities | **991,682** | **–** | **–** | **991,682** |
| At 31 December 2017 | | | | |
| **Financial assets at FVTPL** | | | | |
| Listed equity securities | 1,045,551 | – | – | 1,045,551 |
| Unlisted convertible securities | – | – | 224,751 | 224,751 |
| **AFS investments** | | | | |
| Listed equity securities | 44,259 | – | – | 44,259 |
| Listed debt securities | 1,279,121 | – | – | 1,279,121 |

There was no transfer between Level 1, 2 and 3 for both years.

### d. Fair value of financial assets and financial liabilities that are not measured at fair value on a recurring basis

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair values.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2018

## 37. OPERATING LEASES

### The Group as lessee

The Group made HK$10,300,000 (2017: HK$9,000,000) minimum lease payments under operating leases during the year mainly in respect of its office premises.

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within one year | **9,569** | 9,577 |
| In the second to fifth years inclusive | **9,361** | 18,930 |
| | **18,930** | 28,507 |

Operating lease payments mainly represented rentals payable by the Group for its office premises. Leases are negotiated for a term of two years (2017: three years) and rentals are fixed for an average of two years (2017: three years).

## 38. PLEDGE OF ASSETS

At 31 December 2018, as disclosed in Notes 21, 22, 24 and 29, debt securities of HK$828,005,000 (2017: HK$744,281,000) and equity securities of HK$1,713,361,000 (2017: HK$19,349,000) were pledged for borrowings by way of floating charge respectively.

In addition, as disclosed in Note 27, the Group's credit facilities for issuance of letters of credit and settlement of the securities brokerage activities were secured by the Group's bank deposits of HK$31,394,000 (2017: HK$30,821,000) in aggregate.

## 39. RELATED PARTY DISCLOSURES

### Compensation of key management personnel

The remuneration of directors who are also identified as members of key management during both years were as follows:

| | **2018** | 2017 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Short-term benefits | **11,349** | 22,177 |
| Post-employment benefits | **237** | 151 |
| | **11,586** | 22,328 |

The remuneration of directors and key executives is determined by the Remuneration Committee having regard to the competence, performance and experience of individuals and prevailing market terms.

## 40. RETIREMENT BENEFIT SCHEME

The Group operates a MPF Scheme for all qualifying employees in Hong Kong under the Mandatory Provident Fund Scheme Ordinance (Chapter 485 of the Laws of Hong Kong). The assets of the MPF Scheme are held separately from those of the Group, in funds under the control of trustees.

The retirement benefit scheme contributions relating to the MPF Scheme charged to the consolidated statement of profit or loss and other comprehensive income represented contributions payable to the scheme by the Group at rates specified in the rules of the scheme.

The total costs charged to the statement of profit or loss and other comprehensive income of HK$1,174,000 (2017: HK$846,000) represented contributions payable to this scheme by the Group.

## 41. PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries at 31 December 2018 and 2017 are as follows:

| Name | Place of incorporation/ registration and operation | Class of shares held | Issued and fully paid ordinary share capital | Percentage of equity interest and voting power attributable to the Company 31 December 2018 Direct % | 31 December 2018 Indirect % | 31 December 2017 Direct % | 31 December 2017 Indirect % | Principal activities |
|---|---|---|---|---|---|---|---|---|
| China Strategic Management Limited | Hong Kong ("HK") | Ordinary | HK$1 | - | 100 | – | 100 | Provision of management service |
| China Strategic Metal and Minerals Limited | HK | Ordinary | HK$1 | - | 100 | – | 100 | Trading of metal minerals, metal and coke products |
| CS Credit Limited | HK | Ordinary | HK$1 | - | 100 | – | 100 | Money lending |
| Glory Legacy Asia Limited | British Virgin Islands ("BVI") | Ordinary | US$1 | - | 100 | – | 100 | Investment in securities |
| Guide Plus Investments Limited | HK | Ordinary | HK$1 | - | 100 | – | 100 | Investment in securities |
| Max Talent Investments Limited | HK | Ordinary | HK$1 | - | 100 | – | 100 | Sales of electronic components |
| Prospect Vantage Holdings Limited | BVI | Ordinary | US$1 | - | 100 | – | 100 | Investment in securities |
| Rich Crown Investments Limited | HK | Ordinary | HK$439,506,046 | - | 100 | – | 100 | Investment in securities |
| U Credit (HK) Limited | HK | Ordinary | HK$1 | - | 100 | – | 100 | Money lending |
| CS Wealth Securities Limited | HK | Ordinary | HK$40,000,000 | - | 100 | – | 100 | Securities brokerage |

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the Group's results for the year or formed a substantial portion of the Group's assets and liabilities. To give details of other subsidiaries would results in particulars of excessive length.

None of the subsidiaries had issued any debt securities subsisting at the end of the year or at any time during the year.

## 41. PRINCIPAL SUBSIDIARIES (continued)

At the end of the reporting period, the Company has other subsidiaries that are not material to the Group. The principal activities and places of these subsidiaries are summarised as follows:

| Principal activities of business | Principal place of business | Number of subsidiaries 2018 | 2017 |
|---|---|---|---|
| Investment holding | BVI | **11** | 11 |
| Inactive | BVI | **2** | 2 |
| Inactive | HK | **4** | 4 |
| | | **17** | 17 |

## 42. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

| | Borrowings *HK$'000* | Notes payable *HK$'000* | Interest payables *HK$'000* | Total *HK$'000* |
|---|---|---|---|---|
| At 1 January 2017 | 88,077 | 1,470,919 | 4,603 | 1,563,599 |
| Financing cash flows | 342,679 | (105,657) | (7,068) | 229,954 |
| Interest expenses | – | 126,906 | 7,984 | 134,890 |
| At 31 December 2017 and 1 January 2018 | 430,756 | 1,492,168 | 5,519 | 1,928,443 |
| Financing cash flows | 272,515 | (127,753) | (18,640) | 126,122 |
| Interest expenses | – | 135,910 | 26,143 | 162,053 |
| Redemption of notes issued | – | (200,000) | – | (200,000) |
| Net proceeds from issue of notes | – | 200,000 | – | 200,000 |
| **At 31 December 2018** | **703,271** | **1,500,325** | **13,022** | **2,216,618** |

# Five-Year Financial Summary

## RESULTS

| | For the year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2018** | 2017 | 2016 | 2015 | 2014 |
| | ***HK$'000*** | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Continuing operations** | | | | | |
| Revenue | **1,477,776** | 1,337,246 | 270,706 | 239,466 | 417,590 |
| Profit (loss) before tax | **805,708** | 178,185 | (518,140) | 692,895 | 274,491 |
| Income tax (expense) credit | **(96,918)** | (51,992) | 81,270 | (108,539) | (1,201) |
| Profit (loss) for the year from continuing operations | **708,790** | 126,193 | (436,870) | 584,356 | 273,290 |
| **Discontinued operation** | | | | | |
| Profit for the year from discontinued operation | **–** | – | – | – | 106,529 |
| Profit (loss) for the year | **708,790** | 126,193 | (436,870) | 584,356 | 379,819 |
| Attributable to: | | | | | |
| Owners of the Company | **708,790** | 126,193 | (436,870) | 584,148 | 376,994 |
| Non-controlling interests | **–** | – | – | 208 | 2,825 |
| | **708,790** | 126,193 | (436,870) | 584,356 | 379,819 |

## ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

| | At 31 December | | | | |
|---|---|---|---|---|---|
| | **2018** | 2017 | 2016 | 2015 | 2014 |
| | ***HK$'000*** | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Total assets | **6,062,383** | 5,240,895 | 4,563,197 | 3,593,751 | 1,272,305 |
| Total liabilities | **(2,416,401)** | (2,168,738) | (1,641,970) | (222,751) | (11,761) |
| | **3,645,982** | 3,072,157 | 2,921,227 | 3,371,000 | 1,260,544 |
| Equity attributable to: | | | | | |
| Owners of the Company | **3,645,982** | 3,072,157 | 2,921,227 | 3,371,000 | 1,259,673 |
| Non-controlling interests | **–** | – | – | – | 871 |
| | **3,645,982** | 3,072,157 | 2,921,227 | 3,371,000 | 1,260,544 |