Oriental Explorer Holdings Limited

(Incorporated in Bermuda with limited liability)
(Stock Code: 0430)

Annual Report 2018

Oriental Explorer

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Lau Chi Yung, Kenneth *(Chairman)*
Mr. Lau Michael Kei Chi
(Vice-Chairman and Managing Director)

Independent Non-executive Directors

Mr. Wong Yim Sum
Mr. Lee Siu Man, Ervin
Mr. Tsui Ka Wah

AUDIT COMMITTEE

Mr. Wong Yim Sum *(Chairman)*
Mr. Lee Siu Man, Ervin
Mr. Tsui Ka Wah

REMUNERATION COMMITTEE

Mr. Tsui Ka Wah *(Chairman)*
Mr. Lau Chi Yung, Kenneth
Mr. Lau Michael Kei Chi
Mr. Wong Yim Sum
Mr. Lee Siu Man, Ervin

NOMINATION COMMITTEE

Mr. Lau Chi Yung, Kenneth *(Chairman)*
Mr. Lau Michael Kei Chi
Mr. Wong Yim Sum
Mr. Lee Siu Man, Ervin
Mr. Tsui Ka Wah

COMPANY SECRETARY

Ms. Iu Ka Po

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
Bank J. Safra Sarasin Ltd, Hong Kong Branch
Bank of China
East West Bank, Hong Kong Branch

SOLICITORS

Ng and Fang Solicitors & Notaries
Wong & Tang Solicitors

AUDITORS

HLB Hodgson Impey Cheng Limited
Certified Public Accountants
31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

PRINCIPAL PLACE OF BUSINESS

Units 22-28, 25/F
Tower A, Southmark
11 Yip Hing Street
Wong Chuk Hang
Hong Kong

PRINCIPAL SHARE REGISTRAR & TRANSFER OFFICE

MUFG Fund Services (Bermuda) Limited
The Belvedere Building
69 Pitts Bay Road
Pembroke HM08
Bermuda

HONG KONG BRANCH SHARE REGISTRAR & TRANSFER OFFICE

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

CHAIRMAN'S STATEMENT AND MANAGEMENT DISCUSSION AND ANALYSIS

On behalf of the board of directors (the "Board") of Oriental Explorer Holdings Limited (the "Company"), I am pleased to present the annual results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2018.

REVIEW OF OPERATION

During the year under review, the Group recorded a net loss of approximately HK$92 million (2017: profit of HK$201 million). This was mainly due to the loss brought by the fair value losses in equity investments (stocks) held by the Group for the year ended 31 December 2018.

The investments in equities held by the Group recorded a fair value loss of approximately HK$111 million (2017: gain of HK$162 million). Equity investments recorded dividend income of approximately HK$27 million (2017: HK$26 million).

The Group's rental income in Hong Kong recorded a slight increase of approximately 2% (2017: 7%).

Taking into account the Company's profitability, debt obligations and cash flows, capital required for future development, etc., the Board does not recommend the payment of final dividend for the current year.

PROPERTY INVESTMENT

Hong Kong

The Group's investment properties in Hong Kong mainly comprise of office, industrial and residential units. The Group's investment property portfolio contributed stable rental revenue of approximately HK$5 million in 2018 (2017: HK$5 million).

FINANCIAL INVESTMENTS

Worldwide economy and stocks market were volatile in 2018.

As of 31 December 2018, the Group held approximately HK$608 million (2017: HK$725 million) of highly liquid equity investments, which mainly consisted of blue chips stocks and Exchange Traded Funds listed in Hong Kong. The equity investments were held by the Group in long-term for investment purpose and to receive dividend income.

The Group's equity investments recorded a net fair value loss of approximately HK$111 million (2017: gain of HK$162 million) when marking the investment portfolios to market valuation as of 31 December 2018, and dividend income of approximately HK$27 million (2017: HK$26 million).

The equity investments held by the Group as at 31 December 2018 were as follows:

Stock Code	Company Name	Number of shares held as at 31 December 2018 *'000*	Percentage of shareholding as at 31 December 2018 *%*	Fair value gain/(loss) for the year ended 31 December 2018 *HK$'000*	Dividend income for the year ended 31 December 2018 *HK$'000*	Fair value/ carrying amount as at 31 December 2018 *HK$'000*
2800	Tracker Fund of Hong Kong	8,120	0.26	(32,480)	7,714	211,526
5	HSBC Holdings plc	3,040	0.01	(46,062)	12,160	197,016
2828	Hang Seng H-Share Index ETF	1,332	0.44	(21,046)	4,129	136,397
3988	Bank of China Limited	9,800	0.01	(4,508)	2,073	33,124
857	PetroChina Co. Ltd.	2,378	0.01	(1,355)	419	11,604
941	China Mobile Ltd.	100	0.00	(390)	341	7,535
2628	China Life Insurance Co. Ltd.	300	0.00	(2,373)	147	4,992
	Other listed securities#			(2,750)	34	5,329
				(110,964)	27,017	607,523

Other listed securities mainly represented the Group's investment in 12 companies whose shares were mainly listed on the Main Board of The Stock Exchange of Hong Kong Limited. The carrying value of each of these investments represented less than 1% of the total assets of the Group as at 31 December 2018.

As at 31 December 2018, the equity investments mainly represented listed securities in Hong Kong. The Board acknowledges that the performance of the equity investments may be affected by worldwide economy, volatility in the Chinese and Hong Kong stock markets, and susceptible to other external factors that may affect their values. In order to mitigate possible financial risk related to the equity investments, the management will closely monitor the performance of respective equity investments and the changes in market condition. The Company will adjust the Company's portfolio of investments as the Board considers appropriate.

ACQUISITION AND DISPOSAL OF SUBSIDIARIES AND ASSOCIATED COMPANIES

The Group did not make any material acquisition or disposal of subsidiaries and associated companies during the year ended 31 December 2018.

FOREIGN CURRENCY EXPOSURE

The Group's monetary assets, liabilities and transactions are mainly denominated in Renminbi, Hong Kong dollar and the United States dollar. The Group is exposed to foreign exchange risk with respect mainly to Renminbi which may affect the Group's performance. The management is aware of the possible exchange rate exposure due to the continuing fluctuation of Renminbi and will closely monitor its impact on the performance of the Group and when appropriate hedge its currency risk.

As of 31 December 2018, the Group has not entered into any financial instrument for foreign currency hedging purpose.

LIQUIDITY AND FINANCIAL RESOURCES

The Group generally finances its operations with internally generated cash flows and banking facilities provided by principal banks in Hong Kong. In order to preserve liquidity and enhance interest yields, liquid assets were maintained in the form of highly liquid equity investments of approximately HK$608 million (2017: HK$725 million) as of 31 December 2018. The Group's cash and cash equivalents as of 31 December 2018 amounted to approximately HK$202 million (2017: HK$153 million).

As of 31 December 2018, the Group had total bank and other borrowings amounting to approximately HK$376 million (2017: HK$353 million), which were secured by legal charges on the Group's certain equity investments. The Group's bank borrowings were mainly arranged on a floating rate basis. The bank and other borrowings of the Group as at 31 December 2018 was repayable within 1 year or on demand.

Taking into account the total liquid assets of approximately HK$811 million and total other borrowings of approximately HK$376 million, the Group was debt-free as at 31 December 2018.

CONTINGENT LIABILITY

As of 31 December 2018, the Group had no material contingent liability.

EMPLOYEES AND REMUNERATION POLICY

As of 31 December 2018, the Group had approximately 10 employees in Hong Kong. During the year, the staff costs (including directors' emoluments) amounted to approximately HK$6 million (2017: HK$6 million).

The objective of the Group's remuneration policy is to maintain fair and competitive packages based on business requirements and industry practice. In order to determine the level of remuneration paid to its employees (including directors and senior management), their performance, experience and the prevailing market condition are mainly considered. In addition to salaries, provident fund scheme, discretionary bonuses and tuition/training subsidies are available to employees. Level of remuneration is reviewed annually. During the review process, no individual director is involved in decisions relating to his own remuneration.

PROSPECT

The US Federal Reserve had increased the interest rate 4 times in 2018 (in March 2018, June 2018, September 2018 and December 2018, respectively.). As Hong Kong dollar is pegged to the United States dollar, Hong Kong may also increase its interest rate in the future. These factors may exert pressure on price of equity investments held by the Group, particularly in high-yield equity investments. Besides, the potential risks from Chinese economy may have a significant impact on Hong Kong's rental market.

CHAIRMAN'S STATEMENT AND MANAGEMENT DISCUSSION AND ANALYSIS

The Hong Kong property market, and residential market in particular had experienced enduring growth over the past two years since the beginning of 2016. Although the business sector urges HK Government to withdraw the doubled ad valorem stamp duty (DSD) currently imposed on residential property transactions, the Government has no plan to remove the control measure with goal to stabilize the property market in Hong Kong.

Other factors such as stock market volatility, interest rate hikes and increased supply in government subsidized housing may also hinder the Group's development in the residential property market, resulting in a potential slide in the market value of its investment properties in Hong Kong.

Looking ahead to 2019, the global political and economic environment will inevitably be influenced due to the uncertainties over the US-China trade war and the ongoing Brexit negotiations. Even though it is expected that the economic growth in the Chinese economy will remain slow-paced, the Group is still facing the challenge on the rising costs of operating in China, namely currency fluctuation, high wages, utility expenses, and increasing property refurbishment fees.

The Group will continue to manage the business prudently in order to enhance operational quality, while at the same time seeking appropriate investment opportunities, with a view to increasing profitability and shareholder return.

ACKNOWLEDGEMENT

On behalf of the Board and management team, I would like to thank our shareholders who have extended to us their trust and have been patient with our efforts on exploring business opportunities. Again, I would like to thank my fellow directors and staff for their loyalty and efforts during the past year. I believe that we will create greater value to our investors in the future.

Lau Chi Yung, Kenneth
Chairman

Hong Kong, 28 March 2019

BRIEF BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. LAU Chi Yung, Kenneth, aged 59, joined the Group in 1995. He is the Chairman of the Company. He is also the Chairman and Director of Multifield International Holdings Limited (Stock Code: 898) ("Multifield International"), whose shares are listed on the main board of The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange").

Mr. LAU Michael Kei Chi, aged 65, joined the Group in 2003. He is the Vice-Chairman and Managing Director of the Company. He is also the Vice-Chairman and Managing Director of Multifield International and is the elder brother of Mr. Lau Chi Yung, Kenneth.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. WONG Yim Sum, aged 53, joined the Group as an Independent Non-executive Director in 2004. He is practicing as a Certified Public Accountant, and is a fellow member of the Hong Kong Institute of Certified Public Accountants (HKICPA) and the Association of Chartered Certified Accountants (ACCA). He is the Director of Conpak CPA Limited, a firm of Certified Public Accountants in Hong Kong. He has extensive experience in the finance and auditing fields. He is also an Independent Non-executive Director of Multifield International.

Mr. LEE Siu Man, Ervin, aged 63, joined the Group as an Independent Non-executive Director in 2009. He is a Registered Architect and Authorized Person in Hong Kong. He is a member of the Hong Kong Institute of Architects, and the founder and Managing Director of Fotton-ELA Architects Ltd. and Ervin & Lloyds Engineering Ltd. which provide comprehensive services including architecture, civil, structural and geotechnical engineering, town planning, and estate surveying and construction in the building and development field. He is also an Independent Non-executive Director of Multifield International.

Mr. TSUI Ka Wah, aged 66, joined the Group as an Independent Non-executive Director in 2010. He has 28 years of banking experience with the United States and local banks, and has held various management positions in corporate, retail and private banking. Until 2009, he was the President of Great China Region for a U.S. bank, overseeing operations in Taiwan, the People's Republic of China (the "PRC") and Hong Kong. Since August 2013, he has held the position of Chief Executive Officer of SME Credit Company Limited. Mr. Tsui holds a Bachelor Degree and a Master Degree of Business Administration from the Chinese University of Hong Kong. He is also an Independent Non-executive Director of Multifield International, Southeast Asia Properties & Finance Limited (Stock Code: 252) and Grand Ming Group Holdings Limited (Stock Code: 1271) respectively, whose shares are listed on the main board of the Hong Kong Stock Exchange.

SENIOR MANAGEMENT

Ms. SIU Wai King, Donna, aged 54, joined the Group in 1992. She is the General Manager of the Group. She is responsible for the Group's Hong Kong property business and headquarter's operations and has over 20 years' experience in property business.

Mr. LI Ying Leung, aged 48, joined the Group in 2014. He is the Manager of the Accounting Department of the Group. He holds a Bachelor Degree, and is a member of the HKICPA. He has over 15 years' experience in auditing and accounting.

Ms. IU Ka Po, aged 33, joined the Group in 2016. She is the Deputy Manager of the Accounting Department of the Group and the Company Secretary of the Company. She holds a Master Degree in Accounting, and is a member of the HKICPA. She has over 9 years' experience in auditing and accounting.

REPORT OF THE DIRECTORS

The directors present herewith their report and the audited financial statements of the Company and the Group for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its principal subsidiaries are set out in Note 1 to the consolidated financial statements.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2018 and the state of affairs of the Company and the Group at that date are set out in the accompanying financial statements.

Taking into account the Company's profitability, debt obligations and cash flows, capital required for future development, etc., the Board does not recommend the payment of any dividend in respect of the year ended 31 December 2018.

SUMMARY FINANCIAL INFORMATION

The following is a summary of the published results and assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements and restated/reclassified as appropriate. This summary does not form any part of the audited financial statements.

RESULTS

	Year ended 31 December				
	2018	2017	2016	2015	2014
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
REVENUE	**(79,150)**	192,898	35,621	(55,663)	114,242
Cost of sales	**(1,057)**	(866)	(796)	(754)	(696)
Gross (loss)/profit	**(80,207)**	192,032	34,825	(56,417)	113,546
Other income and gains	**302**	21,319	14,189	13,462	19,493
Operating and administrative expenses	**(8,160)**	(8,323)	(8,476)	(7,910)	(10,556)
Finance costs	**(3,293)**	(2,600)	(2,480)	(234)	(821)
Share of profits and losses of associates	**(1)**	(49)	36,499	30,606	5,249
Loss on distribution of assets from an associate	**–**	–	(11,177)	–	–
(LOSS)/PROFIT BEFORE TAX	**(91,359)**	202,379	63,380	(20,493)	126,911
Income tax expense	**(426)**	(1,460)	(191)	(252)	(424)
(LOSS)/PROFIT FOR THE YEAR	**(91,785)**	200,919	63,189	(20,745)	126,487
Attributable to:					
Owners of the Company	**(91,785)**	200,919	63,189	(20,745)	126,487
Non-controlling interests	**–**	–	–	–	–
	(91,785)	200,919	63,189	(20,745)	126,487

ASSETS AND LIABILITIES

	As at 31 December				
	2018	2017	2016	2015	2014
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Total assets	**1,773,409**	1,319,603	1,118,029	1,016,198	766,772
Total liabilities	**(389,964)**	(366,550)	(377,226)	(309,898)	(24,272)
	1,383,445	953,053	740,803	706,300	742,500

BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2018 are set out in the section headed "Chairman's Statement and Management Discussion and Analysis" on page 3 to 6 of the annual report and forms part of the "Report of the Directors".

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group is committed to support the environmental sustainability. The Group is committed to implementing policies and measures in our daily business operations to foster reduction of the Group's environmental impact. The Company also strives to implement recycling and reducing measures in office premises where applicable.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

During the year under review, as far as the Company is aware, there was no material breach of or non-compliance with applicable laws and regulations by the Group that has a significant impact on the business and operations of the Group.

RELATIONSHIPS WITH STAKEHOLDERS

The Company recognizes that employees are our valuable assets. Thus employee management focuses on recruiting and growing the right people. Staff performance is measured on a regular and structured basis to provide employees with appropriate feedback and to ensure their alignment with the Group's corporate strategy.

The Group also understands that maintaining long-term good relationship with business partners is also one of the primary objectives of the Group. Accordingly, our management have kept good communication, promptly exchanged ideas and shared business update with them when appropriate. During the year under review, there was no material and significant dispute between the Group and its business partners.

INVESTMENT PROPERTIES

Details of movements in the investment properties of the Group during the year are set out in Note 15 to the consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in Note 13 to the consolidated financial statements.

SHARE CAPITAL AND SHARE OPTION SCHEME

Details of movements in the share capital and share option scheme of the Company during the year are set out in Notes 25 and 26 to the consolidated financial statements, respectively.

REPORT OF THE DIRECTORS

PRE-EMPTIVE RIGHTS

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any listed securities of the Company during the year.

RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in Note 34 and the consolidated statement of changes in equity to the consolidated financial statements, respectively.

DISTRIBUTABLE RESERVES

As of 31 December 2018, the Company's share premium account, in the amount of approximately HK$498,761,000 (2017: HK$498,761,000), may be distributed in the form of fully paid bonus shares. Under the Companies Act of Bermuda, the contributed surplus of the Company, in the amount of approximately HK$88,380,000 as at 31 December 2018 (2017: HK$88,380,000), is distributable to shareholders in certain circumstances, as prescribed by Section 54 thereof, which the Company is currently unable to satisfy.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, less than 30% of the Group's turnover and less than 30% of the Group's purchases were attributable to the Group's five largest customers and five largest suppliers respectively.

DIRECTORS

The directors of the Company (the "Director(s)") during the year and up to the date of this report were:

Executive Directors

Mr. Lau Chi Yung, Kenneth	*(Chairman)*
Mr. Lau Michael Kei Chi	*(Vice-Chairman and Managing Director)*

Independent Non-executive Directors

Mr. Wong Yim Sum
Mr. Lee Siu Man, Ervin
Mr. Tsui Ka Wah

The Company has received annual confirmation from each of the independent non-executive Directors as regards their independence to the Company and considers that each of the independent non-executive Directors is independent to the Company.

In accordance with the Company's bye-laws, Mr. Lee Siu Man, Ervin and Mr. Tsui Ka Wah will retire by rotation and, being eligible, will offer themselves for re-election at the forthcoming annual general meeting.

BRIEF BIOGRAPHY OF DIRECTORS AND SENIOR MANAGEMENT

Brief biography of the Directors and senior management of the Group are set out on page 7 of the annual report.

DIRECTORS' SERVICE CONTRACTS

No director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' MATERIAL INTERESTS IN SIGNIFICANT TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as otherwise disclosed in Note 30 to the consolidated financial statements, there were no other transactions, arrangements or contracts that are significant in relation to the businesses of the Company and its subsidiaries to which the Company or any of its subsidiary was a party and in which a director of the Company or his connected entity had a material interest, whether directly or indirectly, subsisted at any time during the year.

EQUITY-LINKED AGREEMENTS

No equity-linked agreements were entered into by the Group during the year or subsisted at the end of the year.

PERMITTED INDEMNITY PROVISION

A permitted indemnity provision for the benefit of the Directors is currently in force and was in force throughout the financial year. The Company has taken out and maintained appropriate insurance cover in respect of potential legal actions against its Directors and officers.

CORPORATE GOVERNANCE

The Company's corporate governance principles and practices are set out in the "Corporate Governance Report" of this annual report.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS OR SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY AND ASSOCIATED CORPORATIONS

As of 31 December 2018, the interests and short positions of the Directors and the chief executive of the Company and each of their respective associates, in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), which were required (i) to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), to be notified to the Company and the Hong Kong Stock Exchange, were as follows:

Long position in ordinary shares of the Company

Name of Director	Capacity and nature of interest	Number of shares held	Approximate percentage of the total issued share capital of the Company %
Mr. Lau Chi Yung, Kenneth	Interest of controlled corporation	1,729,540,999*	64.06

Long position in ordinary shares of associated corporation – Multifield International, an intermediate holding company of the Company

Name of Director	Capacity and nature of interest	Number of shares held	Approximate percentage of the total issued share capital of associated corporation %
Mr. Lau Chi Yung, Kenneth	Interest of controlled corporation	2,797,055,712*	66.91

* *The above shares are ultimately controlled by Power Resources Holdings Limited which acts as the trustee under the Power Resources Discretionary Trust, a family discretionary trust, the discretionary objects of which include Mr. Lau Chi Yung, Kenneth and his family.*

The interests of the directors in the share options of the Company are separately disclosed in Note 26 to the consolidated financial statements.

Other than certain nominee shares in subsidiaries held by a director in trust for the companies in the Group, no director held an interest in the share capital of the Company's subsidiaries during the year.

Save as disclosed above, as of 31 December 2018, none of the Directors and chief executive of the Company had any interests and short positions in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which (i) are required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which he is taken or deemed to have under such provisions of SFO); or (ii) are required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (iii) are required, pursuant to the Model Code to be notified to the Company and the Hong Kong Stock Exchange.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed under the heading "Directors' and chief executive's interests or short positions in the shares, underlying shares and debentures of the Company and associated corporations" above and in the share option schemes disclosures in Note 26 to the consolidated financial statements, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any director or their respective spouse or minor children, or were any such rights exercised by them; or was the Company, or any of its holding companies, subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN THE SHARES

So far as was known to the Directors, as of 31 December 2018, the following interests of 5% or more of the issued share capital 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 ordinary shares of the Company

Name of Shareholders	Capacity and nature of interest	Number of shares held	Approximate percentage of the total issued share capital of the Company %
Limitless Investment Limited	Directly beneficially owned	1,729,540,999#	64.06
Multifield International Holdings (B.V.I.) Limited	Interest of controlled corporation	1,729,540,999#	64.06
Multifield International	Interest of controlled corporation	1,729,540,999#	64.06
Lucky Speculator Limited	Interest of controlled corporation	1,729,540,999#	64.06
Desert Prince Limited	Interest of controlled corporation	1,729,540,999#	64.06
Power Resources Holdings Limited	Interest of controlled corporation	1,729,540,999#	64.06

\# *Power Resources Holdings Limited was deemed to have a beneficial interest in 1,729,540,999 ordinary shares of the Company by virtue of its indirect interests in Lucky Speculator Limited, Desert Prince Limited, Multifield International, Multifield International Holdings (B.V.I.) Limited and Limitless Investment Limited.*

Save as disclosed above, as at 31 December 2018, so far as was known to the Directors, no person, other than the Directors, whose interests are set out in the section "Directors' and chief executive's interests or short positions in the shares, underlying shares and debentures of the Company and associated corporations" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

CONNECTED TRANSACTIONS

Details of the connected transactions are set out in Note 30 to the consolidated financial statements.

SUFFICIENCY OF PUBLIC FLOAT

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

AUDITORS

The financial statements for the years ended 31 December 2016, 2017 and 2018 were audited by HLB Hodgson Impey Cheng Limited whose term of office will expire upon the forthcoming annual general meeting. A resolution for the re-appointment of HLB Hodgson Impey Cheng Limited as the auditors of the Company for the subsequent year is to be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Lau Chi Yung, Kenneth
Chairman

Hong Kong
28 March 2019

CORPORATE GOVERNANCE REPORT

The Company is committed to the establishment of good corporate governance practices and procedures. The corporate governance principles of the Company emphasize a quality Board, sound internal control, transparency and accountability to all shareholders.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

In the opinion of the Directors, the Company has applied the principles and complied with code provisions of the Corporate Governance Code and Corporate Governance Report (the "Code") as set out in Appendix 14 of the Listing Rules throughout the year ended 31 December 2018, save as disclosed below.

Under code provisions A.4.1 and A.4.2, (i) non-executive directors should be appointed for a specific term, subjected to re-election; and (ii) all directors appointed to fill a causal vacancy should be subjected to election by shareholders at the first general meeting after appointment. Every director, including those appointed for a specific term, should be subjected to retirement by rotation at least once every three years.

Non-executive directors do not have a specific term of appointment and under the bye-laws of the Company, at each general meeting, one-third of the directors for the time being, or if their number is not three or a multiple of three, then the number nearest one-third, shall retire from office by rotation save any director holding office as chairman and managing director. The Company intends to propose any amendment of relevant bye-laws of the Company, if necessary, in order to ensure compliance with the Code.

Under code provision E.1.2, the chairman of the board should attend the annual general meeting.

Mr. Lau Chi Yung, Kenneth, the chairman of the Board, attended the annual general meeting of the Company by phone conference, which was held on 25 May 2018 (the "2018 AGM") as he had a business engagement. Mr. Tsui Ka Wah, the chairman of the remuneration committee of the Company, was elected the chairman of the 2018 AGM to ensure effective communication with shareholders of the Company at the meeting. The chairman of the audit committee of the Company, Mr. Wong Yim Sum, had also attended the 2018 AGM.

BOARD COMPOSITION AND BOARD PRACTICE

The Board is mandated to promote the success of the Company by providing leadership and supervising control of the Group's business.

Currently, the Board comprises of two executive Directors and three independent non-executive Directors. The positions of chairman and managing director are held by separate individuals. The chairman provides leadership for the board and the managing director, supported by the management team, provides planning and implementation. The Board, led by Mr. Lau Chi Yung, Kenneth is responsible for the approval and monitoring of the Group's overall strategies and policies, approval of annual budgets and business plans; evaluating the performance of Group; and oversight of management. The chairman ensures that the Board works effectively and discharges its responsibilities. All directors have been consulted on all major and material matters of the Company. With the support of the company secretary, the chairman seeks to ensure that all directors are properly briefed on issues arising at Board meetings and receive adequate and reliable information in a timely manner.

To implement the strategies and plans approved by the Board, executive directors and senior management meet on a regular basis to review the performance of the Group and make financial and operational decisions.

Under the Listing Rules, every listed issuer is required to have at least three independent non-executive directors, at least one of whom must have appropriate professional qualifications, or accounting or related financial management expertise. Currently, the number of independent non-executive directors represents more than one-third of the total board members.

Save as Mr. Lau Michael Kei Chi is the elder brother of Mr. Lau Chi Yung, Kenneth, the members of the Board have no financial, business, family or other material/relevant relationships with one another.

The Company has arranged directors and officers liability and company reimbursement insurances for its directors and officers.

Consideration was given to the independence of Mr. Wong Yim Sum and Mr. Lee Siu Man, Ervin who have served on the Board for more than 14 years and 10 years respectively.

Each of the independent non-executive director has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company is of the view that all independent non-executive directors meet the independence guidelines set out in Rule 3.13 of the Listing Rules and are independent in accordance with the terms of the guidelines. Review will be made regularly on the Board composition to ensure that it has a balance of expertise, skills and experience appropriate for the requirements of the business of the Company. The brief biography of the Directors are set out on page 7.

The Board has scheduled regular meetings per year and meets more frequently as and when required to discuss and formulate the Group's overall business strategies, monitor financial performance and discuss the annual results, interim results and other significant matters. The Director can attend meetings in person or through other means of electronic communication. During the financial year ended 31 December 2018, the attendance of individual Director to the Board meeting and general meeting is summarized below:

	Number of meetings attended/held	
	Board meetings	**General meeting**
Executive Directors		
Mr. Lau Chi Yung, Kenneth	8/8	1/1
Mr. Lau Michael Kei Chi	8/8	1/1
Independent Non-executive Directors		
Mr. Wong Yim Sum	8/8	1/1
Mr. Lee Siu Man, Ervin	8/8	1/1
Mr. Tsui Ka Wah	8/8	1/1

The company secretary keeps the Board minutes of the Company for inspection by the Directors and all Directors have full access to information of the Company.

BOARD DIVERSITY POLICY

The Board has adopted a Board Diversity Policy in December 2013 which sets out the approach to achieve diversity on the Board.

The Company recognises that increasing diversity at the Board level will support the attainment of the Company's strategic objectives and sustainable development. The Company seeks to achieve Board diversity through the consideration of a number of factors, include and make good use of differences in the talents, skills, regional and industry experience, background, gender and other qualities of the members of the Board. All appointments of the members of the Board are made on merit, in the content of the talents, skills and experience the Board as a whole requires to be effective.

The Nomination Committee has set measurable objectives based on talents, skills, regional and industry experience, background, gender and other qualities to implement the Board Diversity Policy. Such objectives will be reviewed from time to time to ensure their appropriateness and the progress made towards achieving those objectives will be ascertained. The Nomination Committee will review the Board Diversity Policy, as appropriate, to ensure its continued effectiveness from time to time.

CORPORATE GOVERNANCE REPORT

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code set out in Appendix 10 to the Listing Rules as its own code of conduct regarding directors' securities transactions. Based on specific enquiry of all Directors, all Directors confirmed that they have complied with the required standard set out in the Model Code for the year ended 31 December 2018. The interests held by individual Directors in the Company's securities as of 31 December 2018 are set out in the "Report of the Directors" on pages 8 to 13.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

With the assistance from the Finance Department, which is under the supervision of the Qualified Accountant of the Company, the Directors ensure that preparation of the financial statements of the Group are in accordance with statutory requirements and applicable accounting standards. The Directors also ensure that the publication of the financial statements of the Group is in a timely manner.

The statement of the external auditors of the Company, HLB Hodgson Impey Cheng Limited, with regard to its reporting responsibilities on the Group's consolidated financial statements, is set out in the Independent Auditors' Report included in this annual report.

The Directors confirm that, to the best of their knowledge, having made an reasonable enquiries, they are not aware of any material uncertainties relating to events or conditions which may cause the Group not to continue as a going concern.

DIRECTORS' CONTINUING PROFESSIONAL DEVELOPMENT PROGRAMME

Each newly appointed Director is provided with necessary induction and information to ensure that he has a proper understanding of the Company's operations and businesses as well as his responsibilities under the relevant statutes, laws, rules and regulations.

Directors' training is an ongoing process. During the year, Directors are provided with monthly updates on the Company's performance, position and prospects to enable the Board as a whole and each Director to discharge their duties. In addition, all Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The Company updates Directors on the latest development regarding the Listing Rules and other applicable regulatory requirements from time to time to ensure compliance and enhance their awareness of good corporate governance practices.

Briefings were organised for Directors in 2018 to update the Directors on the duties of directors and roles and function of board committees, risk management and internal control, environmental, social and governance reporting, corporate governance, and directors' responsibilities at Initial Public Offering were given to the Directors.

During the year, according to the records provided by the Directors, a summary of training is as follows:

	Type of continuous professional development programmes
Executive Directors	
Mr. Lau Chi Yung, Kenneth	A, B
Mr. Lau Michael Kei Chi	A, B
Independent Non-executive Directors	
Mr. Wong Yim Sum	A, B
Mr. Lee Siu Man, Ervin	A, B
Mr. Tsui Ka Wah	A, B

Notes:

A: reading materials and seminars on corporate governance and regulatory updates

B: reading materials and seminars on directors' duties, environmental, social and governance reporting, Listing Rules Compliance update, accounting and tax update, and other applicable legal and regulatory requirements

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Mr. Lau Chi Yung, Kenneth serves as the Chairman of the Company, and the role of Chief Executive Officer of the Company is served by our Managing Director, Mr. Lau Michael Kei Chi. They have separate defined responsibilities whereby the Chairman is primarily responsible for leadership and effective functioning of the Board, ensuring key issues are promptly addressed by the Board, as well as providing strategic direction of the Company, and also take primary responsibility for ensuring good corporate governance practices and procedures are established. The Managing Director is responsible for the day-to-day management of the Company's business and the effective implementation of corporate strategy and policies.

AUDIT COMMITTEE

The Company has established an Audit Committee in accordance with the Listing Rules. The Audit Committee's terms of reference includes those specific duties as set out in the code provision C.3.3 of the Code. Pursuant to its terms of reference, the Audit Committee is required, amongst other things, to consider and recommend to the Board the appointment, re-appointment and removal of the external auditors and to approve their remuneration, to review the interim and annual financial statements, to review the Group's financial controls, internal controls and risk management system, the effectiveness of the Group's internal audit function and to consider any findings of major investigations of internal control matters as delegated by the Board or on its own initiative and management's response. The Audit Committee should meet at least twice each year and when the need arises. Details of the attendance of Audit Committee meetings are as follows:

Members	**Number of meetings attended/held**
Mr. Wong Yim Sum *(Chairman)*	4/4
Mr. Lee Siu Man, Ervin	4/4
Mr. Tsui Ka Wah	4/4

In the presence of the representatives of the Company's independent external auditors, the Group's audited consolidated financial statements for the year ended 31 December 2018 have been reviewed by the Audit Committee, and with recommendation to the Board for approval.

The accounts for the year ended 31 December 2018 were audited by HLB Hodgson Impey Cheng Limited whose term of office will expire upon the forthcoming annual general meeting of the Company. The Audit Committee has recommended to the Board that HLB Hodgson Impey Cheng Limited be reappointed as the auditors of the Company at the forthcoming annual general meeting of the Company.

REMUNERATION COMMITTEE

The main responsibilities of the Remuneration Committee are to consider and recommend to the Board the Company's remuneration policy and structure and to review and determine the remuneration and compensation packages of the executive directors and senior management of the Company. The Remuneration Committee reviews and proposes the management's remuneration proposals with reference to considerations factors such as the Group's performance and profitability, directors' experience, responsibilities and time commitment, existing market environment, salaries paid by comparable companies, employment conditions elsewhere in the Group, and considers the reasonableness on remuneration based on performance.

CORPORATE GOVERNANCE REPORT

The Remuneration Committee set up on 16 September 2005 comprises two executive Directors and three independent non-executive Directors. Details of the attendance of the committee are as follows:

Members	Number of meetings attended/held
Mr. Tsui Ka Wah *(Chairman)*	1/1
Mr. Lau Chi Yung, Kenneth	1/1
Mr. Lau Michael Kei Chi	1/1
Mr. Wong Yim Sum	1/1
Mr. Lee Siu Man, Ervin	1/1

NOMINATION COMMITTEE

The role of Nomination Committee set up on 28 March 2012 is to advise on and propose to appoint any person as a director either to fill a casual vacancy on or as an additional member of the Board. The selection criteria are mainly based on the professional qualification and experience of the candidate. A newly appointed director must retire and be re-elected at the first general meeting after his appointment. At each annual general meeting, one-third of the directors (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation. A retiring director shall be eligible for re-election. Details of the attendance of the committee are as follows:

Members	Number of meetings attended/held
Mr. Lau Chi Yung, Kenneth *(Chairman)*	1/1
Mr. Lau Michael Kei Chi	1/1
Mr. Wong Yim Sum	1/1
Mr. Lee Siu Man, Ervin	1/1
Mr. Tsui Ka Wah	1/1

The Nomination Committee periodically reviews the structure, size and composition of the Board, and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy. Its duties include identifying individuals suitably qualified to become Board members, and select or make recommendations to the Board on the selection of individuals nominated for directorships, and assess the independence of independent non-executive directors.

Most Nomination Committee members are independent non-executive directors.

REMUNERATION OF MEMBERS OF SENIOR MANAGEMENT BY BAND

Pursuant to paragraph B.1.5 of the Code, the remuneration of the members of the senior management by band for the year ended 31 December 2018 is set out in Note 9 to the consolidated financial statements.

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board has the overall responsibility for maintaining a sound and effective system of internal controls and risk management. The Board has identified the top risks of the Group and determined how much risk the Board is willing to take to achieve the Group's strategic objectives. During year 2016, an in-house internal audit department had been set up. In addition, the Group established a risk management system. Each business unit is required to identify and manage risks on a day-to-day basis as the first line of defence. Internal auditor, as the second line of defence, provides independent and objective assurance on the overall effectiveness of the internal control and risk management system.

The audit committee had reviewed the adequacy and effectiveness of the Group's risk management and internal controls system based on the review report audit undertaken by the internal auditor. The Board, through the review by the audit committee, considers that the Group's internal control and risk management system is effective and adequate.

There are inherent limitations in any systems of risk management and internal control and accordingly the Group's risk management and internal control systems are designed to manage rather than eliminate the risk of failure to achieve business of objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

There are also procedures including pre-clearance on dealing in the Group's securities by designated Directors, notification of regular blackout period and securities dealing restrictions to Directors and relevant employees, and dissemination of information for specified purpose and on a need-to-know basis have been implemented to guard against possible mishandling of inside information within the Group.

BUSINESS MODEL AND STRATEGY

The Group has the mission to maintain long term profitability and assets growth with adoption of flexible business model and strategy and prudential risk and capital management framework. The Board has played and will continue to play a proactive role in the Group's development of business model to preserve the culture of the Group in serving customers well with premium service quality; the Group's business strategic drive for business expansion and opportunities; and the Group's setting of strategic goals, priorities and initiatives undertaken to motivate staff to achieve business and financial targets. Details of the Group's Business Review and financial review in the year 2018 are set out in the "Chairman's Statement and Management Discussion and Analysis" section of this annual report.

AUDITORS' REMUNERATION

In line with the sound practice that the independence of external auditors should not be impaired by other non-audit assignments, the Group ensures that assignments other than statutory audits undertaken by external auditors should not have an adverse impact on their independence.

For the year ended 31 December 2018, the auditors of the Company received approximately HK$310,000 for audit services and Nil for tax and consultancy services.

COMPANY SECRETARY

As at 31 December 2018, the company secretary of the Company, Ms. Iu Ka Po fulfills the requirement under Rules 3.28 and 3.29 of the Listing Rules. As an employee of the Company, the company secretary supports the Board, ensures good information flow within the Board and Board policy and procedures are followed; advises the Board on governance matters, facilitates induction and, monitors the training and continuous professional development of Directors. She has attained not less than 15 hours of relevant professional training during the year ended 31 December 2018.

SHAREHOLDERS' RIGHTS

Procedures for shareholders to convene a Special General Meeting (the "SGM")

The Board shall, on the requisition in writing of the shareholders of not less than one-tenth of the paid-up capital of the Company upon which all calls or other sums then due have been paid, forthwith proceed to convene a SGM.

If within twenty-one days of such deposit the Board fails to proceed to convene the SGM, the requisitionists or any of them representing more than one half of the total voting rights of all of them, may themselves convene a SGM, but any meeting so convened shall not be held after three months from the date of the original deposit.

CORPORATE GOVERNANCE REPORT

Procedures for directing shareholders' enquiries to the Board

Shareholders may at any time send their enquiries and concerns to the Board in writing through the Company Secretary whose contact details are as follows:

Units 22-28, 25/F., Tower A, Southmark, 11 Yip Hing Street, Wong Chuk Hang, Hong Kong

Shareholders may also make enquiries with the Board at the general meetings of the Company.

Procedures for putting forward proposals at shareholders' meeting

Shareholders can submit a written requisition to move a resolution at shareholders' meeting. The number of shareholders shall represent not less than one-twentieth of the total voting rights of all shareholders having at the date of the requisition a right to vote at the shareholders' meeting, or who are no less than one hundred shareholders.

The written requisition must state the resolution, accompanied by a statement of not more than one thousand words with respect to the matter referred to in any proposed resolution or the business to be dealt with at the shareholders' meeting. It must also be signed by all of the shareholders concerned and be deposited at the Company's principal place of business in Hong Kong at Units 22-28, 25/F., Tower A, Southmark, 11 Yip Hing Street, Wong Chuk Hang, Hong Kong, for the attention of the Company Secretary not less than six weeks before the shareholders' meeting in case of a requisition requiring notice of a resolution and not less than one week before the shareholders' meeting in case of any other requisition.

The shareholders concerned must deposit a sum of money reasonably sufficient to meet the Company's expenses in serving the notice of the resolution and circulating the statement submitted by the shareholders concerned under applicable laws and rules.

CONSTITUTIONAL DOCUMENTS

There are no changes in the Company's constitutional documents during the year.

INVESTOR RELATIONS AND COMMUNICATION

The Company establishes different communication channels with shareholders and investors. These include (i) the publication of interim and annual reports; (ii) the annual general meeting or special general meeting providing a forum for shareholders of the Company to raise comments and exchange views with the Board; (iii) the Company replies to enquiries from shareholders timely; and (iv) the Company's share registrar in Hong Kong serves the shareholders regarding all share registration matters.

In fact, the Company's annual general meeting (the "AGM") is one of the principal channels of communication with its shareholders. It provides an opportunity for shareholders to ask questions about the Group's performance. A separate resolution is proposed for each substantially separate issue at the AGM.

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

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

To the shareholders of Oriental Explorer Holdings Limited
(Incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of Oriental Explorer Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 25 to 97, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 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 disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

INDEPENDENT AUDITORS' REPORT

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	How our audit addressed the key audit matters
Valuation of investment properties	
Refer to Note 15 to the consolidated financial statements.	
We identified the valuation of investment properties as a key audit matter due to the significance of the balance to the consolidated financial statements as a whole, combined with the estimates associated with determining the fair value. As at 31 December 2018, the Group had investment properties at a carrying amount of approximately HK$267,310,000. All of the Group's investment properties are stated at fair value based on valuations performed by an independent qualified professional valuer not connected with the Group. The valuations were based on the direct comparison approach which involved the use of estimates and assumptions including recent sales price of similar properties with adjustments for any difference in location and condition of the properties.	Our key procedures in relation to the valuation of investment properties included: • Communicating with the management about the valuation techniques adopted by the valuer, obtaining the valuation reports for all properties measured at fair value, and assessing the relevance and reasonableness of valuation techniques used by the valuer; • Evaluating the appropriateness of the key input data used in the determination of fair value; comparing the key inputs to supporting evidence such as recent sale transaction on the market; • Engaging an auditors' expert to assist our assessment on the appropriateness of the methodologies and the reasonableness of the assumptions and key input data adopted in the valuation; and • Evaluating the independent qualified professional valuer's competence, capabilities and objectivity and reviewing their terms of engagement with the Group.
Carrying amount of equity investments at fair value through profit or loss	
Refer to Note 20 to the consolidated financial statements.	
We identified the carrying amount of equity investments at fair value through profit or loss as a key audit matter due to the significance of the balance to the consolidated financial statements as a whole and the impact on revenue. As at 31 December 2018, the Group had listed equity investments at a carrying amount of approximately HK$607,523,000 classified as level 1 financial instruments (measured based on quoted bid prices in an active market).	Our key procedures in relation to the existence, valuation and completeness of the Group's portfolio of listed equity investments included: • Assessing the processes in place to record investment transactions and to value the portfolio; • Agreeing the pricing of the listed investments to externally quoted prices; and • Agreeing the listed investment holdings to independently received third party custodian confirmations.

OTHER INFORMATION

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

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 FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as 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.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. This report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional 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.

INDEPENDENT AUDITORS' REPORT

- 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 auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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

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

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

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

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

The engagement director on the audit resulting in this independent auditors' report is Chan Ching Pang.

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

Chan Ching Pang
Practising Certificate Number: P05746

Hong Kong, 28 March 2019

Oriental Explorer

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

Year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
REVENUE	5	**(79,150)**	192,898
Cost of sales		**(1,057)**	(866)
Gross (loss)/profit		**(80,207)**	192,032
Other income and gains	5	**307**	182
Foreign exchange differences, net		**(5)**	14
Fair value gains on investment properties, net		**–**	21,123
Operating and administrative expenses		**(8,160)**	(8,323)
Finance costs	7	**(3,293)**	(2,600)
Share of losses of an associate		**(1)**	(49)
(LOSS)/PROFIT BEFORE TAX	6	**(91,359)**	202,379
Income tax expense	10	**(426)**	(1,460)
(LOSS)/PROFIT FOR THE YEAR		**(91,785)**	200,919
(LOSS)/PROFIT FOR THE YEAR ATTRIBUTABLE TO:			
Owners of the Company		**(91,785)**	200,919
(LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY			
Basic and diluted	12	**HK(3.40) cents**	HK7.44 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 31 December 2018

	2018	2017
	HK$'000	*HK$'000*
(LOSS)/PROFIT FOR THE YEAR	**(91,785)**	200,919
OTHER COMPREHENSIVE INCOME		
Other comprehensive income that may be reclassified to profit or loss in subsequent periods:		
Available-for-sale investments:		
Changes in fair value	**–**	11,324
Exchange differences on translation of foreign operations	**(5)**	7
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods	**(5)**	11,331
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods:		
Equity investments at fair value through other comprehensive income:		
Changes in fair value	**49,999**	–
Net other comprehensive income that will not be reclassified to profit or loss in subsequent periods	**49,999**	–
OTHER COMPREHENSIVE INCOME FOR THE YEAR	**49,994**	11,331
TOTAL COMPREHENSIVE (EXPENSE)/INCOME FOR THE YEAR ATTRIBUTABLE TO OWNERS OF THE COMPANY	**(41,791)**	212,250

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**42**	95
Prepaid land lease payments	14	**375**	383
Investment properties	15	**267,310**	267,310
Investment in an associate	16	**2,067**	2,068
Club debenture		**670**	670
Equity investments at fair value through other comprehensive income	17	**692,212**	–
Available-for-sale investments	18	**–**	170,030
Total non-current assets		**962,676**	440,556
CURRENT ASSETS			
Prepayments, deposits and other receivables	19	**947**	863
Equity investments at fair value through profit or loss	20	**607,523**	725,165
Pledged deposits	21	**–**	74
Cash and cash equivalents	21	**202,263**	152,945
Total current assets		**810,733**	879,047
TOTAL ASSETS		**1,773,409**	1,319,603
CURRENT LIABILITIES			
Other payables and accruals	22	**6,737**	6,462
Other borrowings	23	**375,990**	353,277
Tax payable		**3,818**	3,818
Total current liabilities		**386,545**	363,557
NET CURRENT ASSETS		**424,188**	515,490
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,386,864**	956,046
NON-CURRENT LIABILITIES			
Deferred tax liabilities	24	**3,419**	2,993
Total non-current liabilities		**3,419**	2,993
Net assets		**1,383,445**	953,053
EQUITY			
Equity attributable to owners of the Company			
Issued capital	25	**27,000**	27,000
Reserves		**1,356,445**	926,053
Total equity		**1,383,445**	953,053

Lau Chi Yung, Kenneth
Chairman

Lau Michael Kei Chi
Vice-Chairman

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2018

	Attributable to owners of the Company						
	Issued capital *HK$'000* *(Note 25)*	Share premium account *HK$'000*	Capital redemption reserve *HK$'000*	Available-for-sale investment revaluation/ Fair value reserve *HK$'000*	Exchange fluctuation reserve *HK$'000*	Retained profits *HK$'000*	Total equity *HK$'000*
At 1 January 2017	27,000	498,761	546	–	(600)	215,096	740,803
Profit for the year	–	–	–	–	–	200,919	200,919
Other comprehensive income for the year:							
Change in fair value of available-for-sale investments	–	–	–	11,324	–	–	11,324
Exchange differences on translation of foreign operations	–	–	–	–	7	–	7
Total comprehensive income for the year	–	–	–	11,324	7	200,919	212,250
At 31 December 2017	27,000	498,761*	546*	11,324*	(593)*	416,015*	953,053
At 31 December 2017	**27,000**	**498,761**	**546**	**11,324**	**(593)**	**416,015**	**953,053**
Effect of adoption of HKFRS 9 *(Note 2.2)*	**–**	**–**	**–**	**462,176**	**–**	**10,007**	**472,183**
At 1 January 2018 (restated)	**27,000**	**498,761**	**546**	**473,500**	**(593)**	**426,022**	**1,425,236**
Loss for the year	**–**	**–**	**–**	**–**	**–**	**(91,785)**	**(91,785)**
Other comprehensive income/(expense) for the year:							
Change in fair value of equity investments at fair value through other comprehensive income	**–**	**–**	**–**	**49,999**	**–**	**–**	**49,999**
Exchange differences on translation of foreign operations	**–**	**–**	**–**	**–**	**(5)**	**–**	**(5)**
Total comprehensive income/(expense) for the year	**–**	**–**	**–**	**49,999**	**(5)**	**(91,785)**	**(41,791)**
At 31 December 2018	**27,000**	**498,761***	**546***	**523,499***	**(598)***	**334,237***	**1,383,445**

* These reserve accounts comprise the consolidated reserves of approximately HK$1,356,445,000 (2017: HK$926,053,000) in the consolidated statement of financial position.

The exchange fluctuation reserve of the Group comprises exchange differences arising from the translation of the financial statements of foreign operations.

The fair value reserve comprises the cumulative net change in the fair value of equity investments at fair value through other comprehensive income.

Oriental Explorer

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2018

	2018 *HK$'000*	2017 *HK$'000*
CASH FLOWS FROM OPERATING ACTIVITIES		
(Loss)/profit before tax	**(91,359)**	202,379
Adjustments for:		
Finance costs	**3,293**	2,600
Share of losses of an associate	**1**	49
Interest income	**(243)**	(49)
Dividend income from listed investments	**(27,017)**	(26,108)
Depreciation	**53**	54
Changes in fair value of investment properties	**–**	(21,123)
Recognition of prepaid land lease payments	**8**	8
Fair value losses/(gains) on equity investments at fair value through profit or loss, net	**110,964**	(162,066)
	(4,300)	(4,256)
Decrease/(increase) in prepayments, deposits and other receivables	**55**	(36)
Decrease in equity investments at fair value through profit or loss	**6,678**	49,266
Increase in other payables and accruals	**193**	179
Cash generated from operations	**2,626**	45,153
Dividends received from listed investments	**27,017**	26,108
Net cash flows from operating activities	**29,643**	71,261
CASH FLOWS FROM INVESTING ACTIVITIES		
Decrease/(increase) in pledged deposits	**74**	(5)
Payment for acquisition of a subsidiary, net of cash acquired	**–**	(55,000)
Purchases of investment properties	**–**	(177)
Interest received	**104**	22
Net cash flows from/(used in) investing activities	**178**	(55,160)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
CASH FLOWS FROM FINANCING ACTIVITIES			
Net change in short-term revolving loans		**22,713**	(12,368)
Interest paid		**(3,211)**	(2,547)
Net cash flows from/(used in) financing activities		**19,502**	(14,915)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**49,323**	1,186
Cash and cash equivalents at beginning of year		**152,945**	151,752
Effect of foreign exchange rate changes, net		**(5)**	7
CASH AND CASH EQUIVALENTS AT END OF YEAR		**202,263**	152,945
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and bank balances	*21*	**2,263**	2,945
Non-pledged deposits with original maturity of less than three months when acquired	*21*	**200,000**	150,000
Cash and cash equivalents		**202,263**	152,945

1. CORPORATE AND GROUP INFORMATION

Oriental Explorer Holdings Limited (the "Company") is a limited liability company incorporated in Bermuda. The registered office of the Company is situated at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and the principal place of business of the Company is located at Units 22-28, 25/F., Tower A, Southmark, 11 Yip Hing Street, Wong Chuk Hang, Hong Kong. The shares of the Company are listed on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange").

During the year, the Company and its subsidiaries (collectively referred to as the "Group") were involved in the following principal activities:

- property investment; and
- trading of securities and investment holding.

In the opinion of the directors, the holding company of the Company is Limitless Investment Limited, which is incorporated in the British Virgin Islands, and the ultimate holding company of the Company is Power Resources Holdings Limited, which is incorporated in the British Virgin Islands.

Information about subsidiaries

Particulars of the Company's principal subsidiaries are as follows:

Name	Place of incorporation/ registration and business	Nominal value of issued ordinary/ registered share capital	Percentage of equity interest attributable to the Company Direct	Indirect	Principal activities
			%	%	
Keen2learn.com International Limited	Hong Kong	HK$2	–	100	Property investment
Linkful (Holdings) Limited	Hong Kong	Ordinary HK$1,000 Non-voting deferred HK$20,000,000	–	100	Investment holding
Linkful Management Services Limited	Hong Kong	HK$2	–	100	Provision of management services
Linkful (PRC) Investments Limited	Hong Kong	HK$2	–	100	Investment holding

NOTES TO FINANCIAL STATEMENTS

31 December 2018

1. CORPORATE AND GROUP INFORMATION *(continued)*

Information about subsidiaries *(continued)*

Particulars of the Company's principal subsidiaries are as follows: *(continued)*

Name	Place of incorporation/ registration and business	Nominal value of issued ordinary/ registered share capital	Percentage of equity interest attributable to the Company Direct %	Indirect %	Principal activities
Linkful Properties Company Limited	Hong Kong/ Mainland China	HK$2	–	100	Investment holding and property holding
Linkful Secretarial Services Limited	Hong Kong	HK$10,000	–	100	Property investment
Linkful Strategic Investment Limited	British Virgin Islands	US$1	100	–	Investment holding
Power Earning Limited	Hong Kong	HK$1	–	100	Property investment
Rich Century Development Limited	Hong Kong	HK$1	–	100	Property investment
Snowdon Worldwide Limited	British Virgin Islands	US$1	–	100	Investment holding

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

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties and certain financial instruments, which have been measured at fair value.

These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest thousand (HK$'000) except when otherwise indicated.

Basis of consolidation

The consolidated financial statements include the financial statements of the Group for the year ended 31 December 2018. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income ("OCI") are attributed to the owners of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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 described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.1 BASIS OF PREPARATION *(continued)*

Basis of consolidation *(continued)*

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in OCI is reclassified to profit or loss or retained profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements.

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*
HKFRS 9	*Financial Instruments*
HKFRS 15	*Revenue from Contracts with Customers*
Amendments to HKFRS 15	*Clarifications to HKFRS 15 Revenue from Contracts with Customers*
Amendments to HKAS 40	*Transfers of Investment Property*
HK(IFRIC)-Int 22	*Foreign Currency Transactions and Advance Consideration*
Annual Improvements 2014-2016 Cycle	Amendments to HKFRS 1 and HKAS 28

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.

HKFRS 9 *Financial Instruments* ("HKFRS 9")

In the current year, the Group has applied HKFRS 9 and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for (1) the classification and measurement of financial assets and financial liabilities and (2) expected credit losses ("ECL") for financial assets.

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 as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained earnings and other components of equity, without restating comparative information.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

HKFRS 9 *Financial Instruments* ("HKFRS 9") *(continued)*

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 *Financial Instruments: Recognition and Measurement* ("HKAS 39").

Accounting policies resulting from application of HKFRS 9 are disclosed in Note 2.4.

Summary of effects arising from initial application of HKFRS 9

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

	Available–for-sale investments *HK$'000*	**Equity investments at fair value through other comprehensive income** *HK$'000*	**Available–for-sale investments revaluation/ Fair value reserve** *HK$'000*	**Retained profits** *HK$'000*
Closing balance at 31 December 2017 – HKAS 39	170,030	–	11,324	416,015
Effect arising from initial application of HKFRS 9:				
Reclassification of financial assets from available-for-sale investments to equity investments at fair value through other comprehensive income	(170,030)	170,030	–	–
Reversal of impairment losses under HKAS 39 for equity investments at fair value through other comprehensive income previously classified as available-for-sale investments	–	–	(10,007)	10,007
Remeasurement of equity investments at fair value through other comprehensive income previously measured at cost under HKAS 39	–	472,183	472,183	–
Opening balance at 1 January 2018	–	642,213	473,500	426,022

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

HKFRS 9 *Financial Instruments* ("HKFRS 9") *(continued)*

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

<u>From available-for-sale investments to fair value through other comprehensive income ("FVTOCI")</u>

The Group elected to present in OCI for the fair value changes of all its equity investments previously classified as available-for-sale. These investments are not held for trading and not expected to be sold in the foreseeable future. At the date of initial application of HKFRS 9, approximately HK$170,030,000 were reclassified from available-for-sale investments to equity investments at FVTOCI, of which approximately HK$38,960,000 related to unquoted equity investments previously measured at cost less impairment under HKAS 39. The fair value gains of approximately HK$472,183,000 relating to those unquoted equity investments previously carried at cost less impairment were adjusted to equity investments at FVTOCI and fair value reserve as at 1 January 2018. The fair value gains of approximately HK$11,324,000 relating to those investments previously carried at fair value continued to accumulate in fair value reserve. In addition, impairment losses previously recognised of approximately HK$10,007,000 were transferred from retained profits to fair value reserve as at 1 January 2018.

<u>Impairment under ECL model</u>

ECL for other financial assets at amortised cost, including pledged bank deposits, bank balances and other receivables, are assessed on 12-month ECL basis as there had been no significant increase in credit risk since initial recognition.

The directors considered that the measurement of ECL has no material impact to the Group's retained earnings at 1 January 2018.

HKFRS 15 *Revenue from Contracts with Customers* ("HKFRS 15")

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 earnings (or other components of equity, as appropriate) 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 the contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared with HKAS 18 *Revenue* and HKAS 11 *Construction Contracts* and the related interpretations.

Information about the Group's performance obligations and the accounting policies resulting from application of HKFRS 15 are disclosed in Note 2.4.

The application on HKFRS 15 has no material impact on the timing and amounts of revenue recognised in current year and retained earnings at 1 January 2018.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES *(continued)*

Amendments to HKAS 40 *Transfers of Investment Property*

The amendments clarify that a transfer to, or from, investment property necessitates an assessment of whether a property meets, or has ceased to meet, the definition of investment property, supported by evidence that a change in use has occurred. The amendments further clarify that situations other than the ones listed in HKAS 40 may evidence a change in use, and that a change in use is possible for properties under construction (i.e. a change in use is not limited to completed properties).

At the date of initial application, the Group assessed the classification of certain properties based on conditions existing at that date. There is no impact to the classification at 1 January 2018.

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 show the adjustments recognised for each of the line items affected. Line items that were not affected by the changes have not been included.

	31 December 2017 (audited) *HK$'000*	**HKFRS 9** *HK$'000*	**1 January 2018** (restated) *HK$'000*
Non-current assets			
Equity investments at FVTOCI	–	642,213	642,213
Available-for-sale investments	170,030	(170,030)	–
Equity			
Available-for-sale investments revaluation/ Fair value reserve	11,324	462,176	473,500
Retained profits	416,015	10,007	426,022

Note:

For the purposes of reporting cash flows from operating activities under indirect method for the year ended 31 December 2018, movements in working capital have been computed based on opening statement of financial position as at 1 January 2018 as disclosed above.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements.

Amendments to HKFRS 3	*Definition of a Business*[3]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*[1]
Amendments to HKFRS 10 and HKAS 28 (2011)	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[5]
HKFRS 16	*Leases*[1]
HKFRS 17	*Insurance Contracts*[4]
Amendments to HKAS 1 and HKAS 8	*Definition of Material*[2]
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*[1]
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*[1]
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*[1]
Annual Improvements 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after 1 January 2020
3 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
4 Effective for annual periods beginning on or after 1 January 2021
5 No mandatory effective date yet determined but available for adoption

Further information about those HKFRSs that are expected to be applicable to the Group is described below.

HKFRS 16 *Leases* ("HKFRS 16")

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. 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 value 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 operating lease payments 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 financial cash flows by the Group.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS *(continued)*

HKFRS 16 *Leases* ("HKFRS 16") *(continued)*

Other than certain requirements which are 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.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of approximately HK$300,000. All of these commitments relate to short-term leases which will be recognised on a straight-line basis as expense in profit or loss. The accounting for lessors will not significantly change. Hence, the directors of the Company do not expect the adoption of HKFRS 16 as compared with the current accounting policy would result in significant impact on the results and the net financial position of the Group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The Group's investment in an associate is stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

Adjustments are made to bring into line any dissimilar accounting policies that may exist.

The Group's share of the post-acquisition results and OCI of associates is included in the consolidated statement of profit or loss and consolidated statement of comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associates, except where unrealised losses provide evidence of an impairment of the asset transferred. Goodwill arising from the acquisition of associates is included as part of the Group's investments in associate.

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

When an investment in an associate is classified as held for sale, it is accounted for in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations.*

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Fair value measurement

The Group measures its investment properties, derivative financial instruments and equity investments at fair value at the end of each reporting period. 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. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than financial assets and investment properties), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to the statement of profit or loss in the period in which it arises.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and that person

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

(ii) has significant influence over the Group; or

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

or

(b) the party is an entity where any of the following conditions applies:

(i) the entity and the Group are members of the same group;

(ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);

(iii) the entity and the Group are joint ventures of the same third party;

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Property, plant and equipment and depreciation

Property, plant and equipment are stated at cost less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to the statement of profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	5% or over the lease terms, if shorter
Leasehold improvements	Over the lease terms
Furniture, fixtures and office equipment	20% – 33 $^{1}/_{3}$%
Motor vehicles	20% – 25%

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

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in the statement of profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Investment properties

Investment properties are interests in land and buildings (including the leasehold interest under an operating lease for a property which would otherwise meet the definition of an investment property) held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, which reflects market conditions at the end of the reporting period.

Gains or losses arising from changes in the fair values of investment properties are included in the statement of profit or loss in the year in which they arise.

Any gains or losses on the retirement or disposal of an investment property are recognised in the statement of profit or loss in the year of the retirement or disposal.

NOTES TO FINANCIAL STATEMENTS

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessor, assets leased by the Group under operating leases are included in non-current assets, and rentals receivable under the operating leases are credited to the statement of profit or loss on the straight-line basis over the lease terms. Where the Group is the lessee, rentals payable under operating leases net of any incentives received from the lessor are charged to the statement of profit or loss on the straight-line basis over the lease terms.

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms.

Investments and other financial assets (policies under HKFRS 9 applicable from 1 January 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost, fair value through other comprehensive income, and fair value through profit or loss.

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially measures a financial asset at its fair value, plus in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15 in accordance with the policies set out for "Revenue recognition (applicable from 1 January 2018)" below.

In order for a financial asset to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets (policies under HKFRS 9 applicable from 1 January 2018) *(continued)*

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at amortised cost (debt instruments)

The Group measures financial assets at amortised cost if both of the following conditions are met:

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

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in the statement of profit or loss when the asset is derecognised, modified or impaired.

Financial assets at fair value through other comprehensive income (debt instruments)

The Group measures debt investments at fair value through other comprehensive income if both of the following conditions are met:

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

For debt investments at fair value through other comprehensive income, interest income, foreign exchange revaluation and impairment losses or reversals are recognised in the statement of profit or loss and computed in the same manner as for financial assets measured at amortised cost. The remaining fair value changes are recognised in other comprehensive income. Upon derecognition, the cumulative fair value change recognised in other comprehensive income is recycled to the statement of profit or loss.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets (policies under HKFRS 9 applicable from 1 January 2018) *(continued)*

Financial assets designated at fair value through other comprehensive income (equity investments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity investments designated at fair value through other comprehensive income when they meet the definition of equity under HKAS 32 *Financial Instruments: Presentation* and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to the statement of profit or loss. Dividends are recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Equity investments designated at fair value through other comprehensive income are not subject to impairment assessment.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at fair value through other comprehensive income, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognised in the statement of profit or loss.

This category includes derivative instruments and equity investments which the Group had not irrevocably elected to classify at fair value through other comprehensive income. Dividends on equity investments classified as financial assets at fair value profit or loss are also recognised as other income in the statement of profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets (policies under HKFRS 9 applicable from 1 January 2018) *(continued)*

Financial assets at fair value through profit or loss (continued)

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

Investments and other financial assets (policies under HKAS 39 applicable before 1 January 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

All regular way purchases and sales of financial assets are recognised on the trade date, that is, the date that the Group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

The Group's financial assets include cash and bank balances, other receivables, loans receivable, and quoted and unquoted financial instruments.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets (policies under HKAS 39 applicable before 1 January 2018) *(continued)*

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as finance costs in the statement of profit or loss. These net fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition (applicable before 1 January 2018)" below.

Financial assets designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss in finance costs for loans and in other expenses for receivables.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Investments and other financial assets (policies under HKAS 39 applicable before 1 January 2018) *(continued)*

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as OCI in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the statement of profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the statement of profit or loss in other gains or losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the statement of profit or loss as revenue in accordance with the policies set out for "Revenue recognition (applicable before 1 January 2018)" below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable futures or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of profit or loss.

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31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derecognition of financial assets (policies under HKFRS 9 applicable from 1 January 2018 and policies under HKAS 39 applicable before 1 January 2018)

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e. removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risk and rewards of ownership of the assets. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets (policies under HKFRS 9 applicable from 1 January 2018)

The Group recognises an allowance for ECLs for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

General approach

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, 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 as at the date of initial recognition and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Simplified approach

For trade receivables and contract assets that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For trade receivables and contract assets that contain a significant financing component and lease receivables, the Group chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

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31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets (policies under HKAS 39 applicable before 1 January 2018)

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial asset that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in the statement of profit or loss. Interest income continues to be accrued on the reduced carrying amount and using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses in profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Impairment of financial assets (policies under HKAS 39 applicable before 1 January 2018) *(continued)*

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is removed from OCI and recognised in profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss – is removed from OCI and recognised in profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through profit or loss. Increases in their fair value after impairment are recognised directly in OCI.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

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2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include other payables and accruals, and other borrowings.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss (policies under HKFRS 9 applicable from 1 January 2018)

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKFRS 9. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in HKFRS 9 are satisfied. Gains or losses on liabilities designated at fair value through profit or loss are recognised in the statement of profit or loss, except for the gains or losses arising from the Group's own credit risk which are presented in other comprehensive income with no subsequent reclassification to the statement of profit or loss. The net fair value gain or loss recognised in the statement of profit or loss does not include any interest charged on these financial liabilities.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018) *(continued)*

Financial liabilities at fair value through profit or loss (policies under HKAS 39 applicable before 1 January 2018)

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on liabilities held for trading are recognised in profit or loss. The net fair value gain or loss recognised in profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition as at fair value through profit or loss are designated at the date of initial recognition and only if the criteria in HKAS 39 are satisfied.

Loans and borrowings

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs in profit or loss.

Financial guarantee contracts (policies under HKFRS 9 applicable from 1 January 2018)

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contracts at the higher of: (i) the ECL allowance determined in accordance with the policy as set out in "Impairment of financial assets (policies under HKFRS 9 applicable from 1 January 2018)"; and (ii) the amount initially recognised less, when appropriate, the cumulative amount of income recognised.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018) *(continued)*

Financial guarantee contracts (policies under HKAS 39 applicable before 1 January 2018)

A financial guarantee contract is recognised initially as a liability at its fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group measures the financial guarantee contract at the higher of: (i) the amount of the best estimate of the expenditure required to settle the present obligation at the end of the reporting period; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation.

Derecognition of financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in profit or loss.

Offsetting of financial instruments (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Fair value of financial instruments

The fair value of financial instruments that are traded in active markets is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs. For financial instruments where there is no active market, the fair value is determined using appropriate valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; a discounted cash flow analysis.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Derivative financial instruments (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

Initial recognition and subsequent measurement

Derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

Any gains and losses arising from changes in fair value of derivatives are taken directly to profit or loss.

Cash and cash equivalents

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

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

Provisions

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditures expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in finance costs in profit or loss.

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in OCI or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Income tax *(continued)*

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries and an associate, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries and an associate, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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 profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition (applicable from 1 January 2018)

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

Revenue from other sources

Rental income is recognised on a time proportion basis over the lease terms.

Interest income is recognised on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Revenue recognition (applicable before 1 January 2018)

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset;

(b) dividend income, when the shareholders' right to receive payment has been established;

(c) rental income from property letting, on a time proportion basis over the lease terms;

(d) income from the sale of debt investments on the trade date;

(e) realised fair value gains or losses on securities trading on a trade date basis, whilst unrealised fair value gains or losses, on change in fair value at the end of the reporting period; and

(f) fair value gains or losses on derivative financial instruments, on change in fair value at the end of the reporting period.

Share-based payments

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments ("equity-settled transactions").

The cost of equity-settled transactions with employees for grant after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined using an appropriate option pricing model.

The cost of equity-settled transactions is recognised in employee benefit expense, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at the end of each reporting period until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Share-based payments *(continued)*

For awards that do not ultimately vest because non-market performance and/or service conditions have not been met, no expense is recognised. Where awards include a market or non-vesting condition, the transactions are treated as vesting irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified, if the original terms of the award are met. In addition, an expense is recognised for any modification that increases the total fair value of the share-based payments, or is otherwise beneficial to the employee as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the Group or the employee are not met. However, if a new award is substituted for the cancelled award, and is designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Other employee benefits

Pension scheme

The Group operates a defined contribution Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme.

The employees of the Group's subsidiary which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. This subsidiary is required to contribute a certain percentage of their payroll costs to the central pension scheme. The only obligation of the Group with respect to the central pension scheme is to pay the ongoing contributions under the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Other employee benefits *(continued)*

Employment Ordinance long service payments

Certain of the Group's employees have completed the required number of years of service to the Group in order to be eligible for long service payments under the Hong Kong Employment Ordinance in the event of the termination of their employment. The Group is liable to make such payments in the event that such a termination of employment meets the circumstances specified in the Hong Kong Employment Ordinance.

A provision is recognised in respect of the probable future long service payments expected to be made. The provision is based on the best estimate of the probable future payments which have been earned by the employees from their service to the Group to the end of the reporting period.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Foreign currencies

These financial statements are presented in Hong Kong dollars, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in OCI or profit or loss is also recognised in OCI or profit or loss, respectively).

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currencies of certain overseas subsidiaries and an associate are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into Hong Kong dollar at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss and other comprehensive income are translated into Hong Kong dollar at the weighted average exchange rates for the year.

The resulting exchange differences are recognised in OCI and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is recognised in profit or loss.

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into Hong Kong dollar at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

The preparation of the Group's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets or liabilities affected in the future.

Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Operating lease commitments – Group as lessor

The Group has entered into commercial property leases on its investment property portfolio. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

Classification between investment properties and owner-occupied properties

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group.

Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately or leased out separately under a finance lease, the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.

Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(continued)*

Estimation uncertainty

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

Fair values of financial instruments

Financial instruments such as equity instruments are carried at the statement of financial position at fair value. The best evidence of fair value is quoted prices in an active market, where quoted prices are not available for a particular financial instrument, the Group uses the market values determined by independent financial institutions or internal or external valuation models to estimate the fair value. The use of methodologies, models and assumptions in pricing and valuing these financial assets and liabilities is subjective and requires varying degrees of judgement by management, which may result in significantly different fair values and results.

Estimation of fair value of investment properties

As described in Note 15 to the consolidated financial statements, the investment properties were revalued at the end of the reporting period based on the appraised market value provided by an independent professional valuer. Such valuations were based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the estimation, the Group considers information from current prices in an active market for similar properties and uses assumptions that are mainly based on market conditions existing at the end of each reporting period.

Income taxes and deferred taxation

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

Deferred tax assets relating to certain temporary differences and tax losses are recognised when management considers to be probable that future taxable profit will be available against which the temporary differences or tax losses can be recognised. The outcome of their actual recognition may be different.

NOTES TO FINANCIAL STATEMENTS

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4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into two (2017: two) reportable operating segments as follows:

(a) the property investment segment mainly comprises rental income from investment properties; and

(b) the trading and investment segment includes the trading of securities and investment income from securities investment and investment holding.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/loss, which is a measure of adjusted profit/loss before tax. The adjusted profit/loss before tax is measured consistently with the Group's profit/loss before tax except that unallocated corporate expenses, interest income on bank deposits, fair value gains/losses on investment properties, share of profits and losses of an associate, finance costs and other gains are excluded from such measurement.

Segment assets exclude pledged deposits, cash and cash equivalents and other unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude other borrowings, tax payable, deferred tax liabilities and unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

There are no sales or other transactions between the operating segments during the year (2017: Nil).

Years ended 31 December 2018 and 2017

	Property investment		**Trading and investments**		**Total**	
	2018	2017	**2018**	2017	**2018**	2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment revenue *(Note 5)*						
Revenue from external customers	**4,797**	4,724	**(83,947)**	188,174	**(79,150)**	192,898
Segment results	**3,072**	3,731	**(85,291)**	186,797	**(82,219)**	190,528
Reconciliation:						
Unallocated corporate expenses					**(6,153)**	(6,805)
Interest income on bank deposits					**243**	49
Other gains					**64**	133
Fair value gains on investment properties, net	**–**	21,123	**–**	–	**–**	21,123
Finance costs					**(3,293)**	(2,600)
Share of losses of an associate	**(1)**	(49)	**–**	–	**(1)**	(49)
(Loss)/profit before tax					**(91,359)**	202,379

4. OPERATING SEGMENT INFORMATION *(continued)*

Years ended 31 December 2018 and 2017

	Property investment		Trading and investments		Total	
	2018	2017	**2018**	2017	**2018**	2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Segment assets	**267,432**	267,433	**1,300,843**	857,339	**1,568,275**	1,124,772
Reconciliation:						
Unallocated assets					**203,067**	192,763
Investment in an associate					**2,067**	2,068
Total assets					**1,773,409**	1,319,603
Segment liabilities	**1,248**	1,171	**163**	81	**1,411**	1,252
Reconciliation:						
Unallocated liabilities					**388,553**	365,298
Total liabilities					**389,964**	366,550

Years ended 31 December 2018 and 2017

	Property investment		Trading and investments		Unallocated		Total	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Other segment information:								
Depreciation and amortisation	**1**	1	**–**	–	**60**	61	**61**	62
Fair value gains on investment properties, net	**–**	21,123	**–**	–	**–**	–	**–**	21,123
Fair value (losses)/gains on equity investments at fair value through profit or loss, net	**–**	–	**(110,964)**	162,066	**–**	–	**(110,964)**	162,066
Capital expenditure*	**–**	55,177	**–**	–	**–**	–	**–**	55,177

* *Capital expenditure consists of additions to property, plant and equipment and investment properties.*

4. OPERATING SEGMENT INFORMATION *(continued)*

Geographical information

(a) Revenue from external customers are all generated from Hong Kong. No single external customer accounted for 10% or more of the total revenue for the years ended 31 December 2018 and 2017.

(b)

	Hong Kong		Mainland China		Total	
	2018	2017	**2018**	2017	**2018**	2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Non-current assets	**267,352**	267,405	**375**	383	**267,727**	267,788

The non-current asset information above is based on the locations of assets and excludes financial instruments.

5. REVENUE, OTHER INCOME AND GAINS

An analysis of revenue is as follows:

	2018	2017
	HK$'000	*HK$'000*
Rental income from property letting	**4,797**	4,724
Fair value (losses)/gains on equity investments at fair value through profit or loss, net	**(110,964)**	162,066
Dividend income from listed investments	**27,017**	26,108
	(79,150)	192,898

	2018	2017
	HK$'000	*HK$'000*
Other income and gains		
Interest income on bank deposits	**243**	49
Others	**64**	133
	307	182

6. (LOSS)/PROFIT BEFORE TAX

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

	2018 HK$'000	2017 HK$'000
Depreciation	53	54
Amortisation of prepaid land lease payments	8	8
Operating leases rental on premises	600	600
Auditors' remuneration – audit services	310	210
Direct operating expenses (including repairs and maintenance) arising on rental-earning investment properties	1,057	866
Foreign exchange differences, net	5	(14)
Employee benefit expense (including directors' and chief executive's remuneration *(Note 8)*):		
Salaries, wages and other benefits	5,478	5,735
Pension scheme contributions (defined contribution scheme) *(Note)*	125	147
Total staff costs	5,603	5,882

Note:

At 31 December 2018, the Group had no forfeited contributions available to reduce its contributions to the pension scheme in future years (2017: Nil).

7. FINANCE COSTS

An analysis of finance costs is as follows:

	2018 HK$'000	2017 HK$'000
Interest on other loans	3,293	2,600

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8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Details of directors' and chief executive's remuneration for the year are as follows:

	2018	2017
	HK$'000	*HK$'000*
Fees	**252**	252
Other emoluments:		
Salaries, allowances and benefits in kind	**2,875**	2,760
Pension scheme contributions	**18**	18
	2,893	2,778
	3,145	3,030

(a) Independent non-executive directors

The fees paid to the independent non-executive directors during the year were as follows:

	2018	2017
	HK$'000	*HK$'000*
Mr. Wong Yim Sum	**84**	84
Mr. Lee Siu Man, Ervin	**84**	84
Mr. Tsui Ka Wah	**84**	84
	252	252

There were no other emoluments payable to the independent non-executive directors during the year (2017: Nil).

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION *(continued)*

(b) Executive directors and the chief executive

	Fees *HK$'000*	Salaries, allowances and benefits in kind *HK$'000*	Pension scheme contributions *HK$'000*	Total remuneration *HK$'000*
2018				
Executive directors:				
Mr. Lau Chi Yung, Kenneth	**–**	**2,875**	**18**	**2,893**
Mr. Lau Michael Kei Chi (Chief executive)	**–**	**–**	**–**	**–**
	–	**2,875**	**18**	**2,893**
2017				
Executive directors:				
Mr. Lau Chi Yung, Kenneth	–	2,760	18	2,778
Mr. Lau Michael Kei Chi (Chief executive)	–	–	–	–
	–	2,760	18	2,778

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year.

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9. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included one (2017: one) director and the chief executive, details of whose remuneration are set out in Note 8 above. Details of the remuneration for the year of the remaining four (2017: four) highest paid employees who are neither a director nor chief executive of the Company for the year are as follows:

	2018	2017
	HK$'000	*HK$'000*
Salaries, allowances and benefits in kind	**1,264**	1,177
Pension scheme contributions	**59**	55
	1,323	1,232

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following band is as follows:

	Number of employees	
	2018	2017
Nil to HK$1,000,000	**4**	4

10. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2017: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable in Mainland China have been calculated at the rate of tax prevailing in Mainland China, in which the Group operates.

	2018	2017
	HK$'000	*HK$'000*
Deferred tax *(Note 24)*	**426**	1,460

No provision for Hong Kong profits tax and PRC corporate income tax have been made for both years as the Group did not generate any assessable profits arising in Hong Kong and Mainland China.

A reconciliation of the tax expense applicable to (loss)/profit before tax at the applicable rates for the jurisdictions in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rate are as follows:

	2018	2017
	HK$'000	*HK$'000*
(Loss)/profit before tax	**(91,359)**	202,379
Tax at the applicable tax rate	**(15,074)**	33,393
Losses attributable to an associate	**–**	8
Income not subject to tax	**(4,515)**	(33,551)
Expenses not deductible for tax	**61**	726
Tax losses utilised from previous periods	**–**	(61)
Tax losses not recognised	**19,954**	945
Tax charge at the Group's effective rate	**426**	1,460

The share of tax expense attributable to an associate amounting to approximately HK$8,000 is included in "Share of losses of an associate" in the consolidated statement of profit or loss for the year ended 31 December 2017.

11. DIVIDENDS

The directors do not recommend the declaration of a final dividend for the year ended 31 December 2018 (2017: Nil).

NOTES TO FINANCIAL STATEMENTS

31 December 2018

12. (LOSS)/EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic (loss)/earnings per share amounts is based on the loss for the year attributable to ordinary equity holders of the Company of approximately HK$91,785,000 (2017: profit for the year of approximately HK$200,919,000), and the weighted average number of ordinary shares of 2,700,000,000 (2017: 2,700,000,000) in issue during the year.

The diluted (loss)/earnings per share is equal to the basic (loss)/earnings per share as there is no potentially dilutive ordinary shares in issue during the years ended 31 December 2018 and 2017.

13. PROPERTY, PLANT AND EQUIPMENT

	Buildings *HK$'000*	Furniture, fixtures and office equipment *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
31 December 2018				
At 31 December 2017 and at 1 January 2018:				
Cost	**746**	**8**	**5,430**	**6,184**
Accumulated depreciation	**(746)**	**(5)**	**(5,338)**	**(6,089)**
Net carrying amount	**–**	**3**	**92**	**95**
At 1 January 2018, net of accumulated depreciation	**–**	**3**	**92**	**95**
Depreciation provided during the year	**–**	**(1)**	**(52)**	**(53)**
At 31 December 2018, net of accumulated depreciation	**–**	**2**	**40**	**42**
At 31 December 2018:				
Cost	**746**	**8**	**5,430**	**6,184**
Accumulated depreciation	**(746)**	**(6)**	**(5,390)**	**(6,142)**
Net carrying amount	**–**	**2**	**40**	**42**

13. PROPERTY, PLANT AND EQUIPMENT *(continued)*

	Buildings *HK$'000*	Furniture, fixtures and office equipment *HK$'000*	Motor vehicles *HK$'000*	Total *HK$'000*
31 December 2017				
At 1 January 2017:				
Cost	746	8	5,430	6,184
Accumulated depreciation	(746)	(4)	(5,285)	(6,035)
Net carrying amount	–	4	145	149
At 1 January 2017, net of accumulated depreciation	–	4	145	149
Depreciation provided during the year	–	(1)	(53)	(54)
At 31 December 2017, net of accumulated depreciation	–	3	92	95
At 31 December 2017:				
Cost	746	8	5,430	6,184
Accumulated depreciation	(746)	(5)	(5,338)	(6,089)
Net carrying amount	–	3	92	95

14. PREPAID LAND LEASE PAYMENTS

	2018 ***HK$'000***	2017 *HK$'000*
Carrying amount at 1 January	**383**	391
Recognised during the year	**(8)**	(8)
Carrying amount at 31 December	**375**	383

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15. INVESTMENT PROPERTIES

	2018	2017
	HK$'000	*HK$'000*
Carrying amount at 1 January	**267,310**	191,010
Acquisition of subsidiary	–	55,000
Additions	–	177
Net gain from fair value adjustments	–	21,123
Carrying amount at 31 December	**267,310**	267,310

The directors of the Company have determined that the investment properties consist of four classes of asset, i.e., car parking spaces, commercial properties, residential properties and industrial properties, based on the nature, characteristics and risk of each property.

The fair value of the Group's investment properties situated in Hong Kong at 31 December 2018 had been arrived at based on a valuation carried out on that date by Ravia Global Appraisal Advisory Limited, the independent professional qualified valuer not connected to the Group.

The fair value of the Group's investment properties were revalued by Ravia Global Appraisal Advisory Limited on 31 December 2018. The valuation was determined using the direct comparison method by making reference to comparable market observable transactions of similar properties and adjusted to reflect the conditions and locations of the subject properties. There has been no change from the valuation techniques used in the prior year.

The key input was the market price per square feet. The valuation takes into account the characteristics which include the location, size, shape, view, floor level, year of completion and other factors collectively, to arrive at the market price.

Management reviews the valuation performed by the independent valuer for financial reporting purposes on a yearly basis. The review includes verification of all major inputs to the valuation, assessing property valuation movements and discussions with the independent valuer. Management considers that the current use of investment properties equates the highest and best use.

Certain of the Group's investment properties are leased to third parties under operating leases, further summary details of which are included in Note 29 to the consolidated financial statements.

Further particulars of the Group's investment properties are included on pages 111 to 112.

15. INVESTMENT PROPERTIES *(continued)*

Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's investment properties:

	Fair value measurement as at 31 December using			
	Quoted prices in active markets (Level 1) *HK$'000*	**Significant observable inputs (Level 2)** *HK$'000*	**Significant unobservable inputs (Level 3)** *HK$'000*	**Total** *HK$'000*
Recurring fair value measurement for:				
2018				
Car parking space	**–**	**7,800**	**–**	**7,800**
Commercial properties	**–**	**117,000**	**–**	**117,000**
Residential properties	**–**	**91,300**	**–**	**91,300**
Industrial properties	**–**	**51,210**	**–**	**51,210**
	–	**267,310**	**–**	**267,310**
2017				
Car parking space	–	7,800	–	7,800
Commercial properties	–	117,000	–	117,000
Residential properties	–	91,300	–	91,300
Industrial properties	–	51,210	–	51,210
	–	267,310	–	267,310

During the year ended 31 December 2018, there was no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 (2017: Nil).

16. INVESTMENT IN AN ASSOCIATE

	2018 HK$'000	2017 HK$'000
Share of net assets	**2,067**	2,068

Particulars of the Group's associate are as follows:

Name	Particulars of issued shares held	Place of incorporation/ registration and business	Percentage of ownership interest attributable to the Group %	Principal activities
Call Rich Investments Limited	12,520 ordinary shares of US$1 each	British Virgin Islands	25.04	Investment holding

The Group's shareholdings in the associate's equity shares are indirectly held by the Company through wholly-owned subsidiary.

The Group's associate is accounted for using the equity method in the consolidated financial statements.

The following table illustrates the summarised financial information of the Group's associate extracted from their financial statements:

	2018 HK$'000	2017 HK$'000
Current assets	**9,668**	9,676
Non-current assets	**–**	–
Current liabilities	**(499)**	(499)
Non-current liabilities	**–**	–
Non-controlling interests	**(915)**	(918)
Net assets	**8,254**	8,259
Reconciliation to the Group's interest in the associate:		
Group's share of net assets of the associate	**25.04%**	25.04%
Carrying amount of the investment	**2,067**	2,068
Revenues	**–**	–
Loss for the year	**(5)**	(197)
Other comprehensive expenses for the year	**–**	–
Total comprehensive expense for the year	**(5)**	(197)
Dividend received	**–**	–

17. EQUITY INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2018
	HK$'000
Equity investments at fair value through other comprehensive income	
Unlisted equity investments, at fair value	**692,212**

The above unlisted equity investments represent the Group's equity interests in private entities established in the British Virgin Islands. The directors of the Company have elected to designate these investments in equity investments as at FVTOCI as they believe that these investments are not held for trading and not expected to be sold in the foreseeable future.

In the opinion of the directors, fair value hierarchy of the equity investments as at FVTOCI is at Level 3 at 31 December 2018. Details of disclosure for fair value measurement set out in Note 32 to the consolidated financial statements.

18. AVAILABLE-FOR-SALE INVESTMENTS

	2017
	HK$'000
Available-for-sale investments	
Unlisted equity investments, at cost *(Note a)*	60,556
Impairment	(21,596)
	38,960
Unlisted equity investments, at fair value *(Note b)*	131,070
	170,030

Notes:

(a) The above unlisted equity investments represent investments in unlisted equity securities issued by private entities incorporated in the British Virgin Islands. They are measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

(b) In the opinion of the directors, fair value hierarchy of the available-for-sale investment is at Level 3 at 31 December 2017. Details of disclosure for fair value measurement set out in Note 32 to the consolidated financial statements.

19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

As at 31 December 2018, the allowance for credit loss represents a 12-month ECL recognised for other receivables under general approach. Details of impairment assessment of other receivables for the year ended 31 December 2018 are set out in Note 33.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

20. EQUITY INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018	2017
	HK$'000	*HK$'000*
Listed equity investments, at fair value	**607,523**	725,165

The above equity investments at 31 December 2018 and 2017 were classified as equity investments at fair value through profit or loss as they were held for trading.

At 31 December 2018, certain of the Group's listed equity investments with a carrying amount of approximately HK$607,207,000 (2017: HK$724,664,000) were pledged to secure the Group's other loans, as further detailed in Note 23 to the consolidated financial statements.

21. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2018	2017
	HK$'000	*HK$'000*
Cash and bank balances	**2,263**	3,019
Time deposits with original of maturity less than three months	**200,000**	150,000
	202,263	153,019
Less: Pledged deposits	**–**	(74)
Cash and cash equivalents	**202,263**	152,945

As at 31 December 2017, the deposits of approximately HK$74,000 were pledged as security for banking facilities granted.

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to approximately HK$78,000 (2017: HK$238,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposits rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group and earn interest at the respective short term time deposit rates.

Details of impairment assessment of pledged bank deposits and bank balances for the year ended 31 December 2018 are set out in Note 33.

22. OTHER PAYABLES AND ACCRUALS

	2018	2017
	HK$'000	*HK$'000*
Accruals	**4,566**	4,449
Other payables	**2,171**	2,013
	6,737	6,462

Other payables are non-interest-bearing and repayable on demand.

23. OTHER BORROWINGS

	2018			2017		
	Contractual interest rate (%)	**Maturity**	***HK$'000***	Contractual interest rate (%)	Maturity	*HK$'000*
Current liabilities						
Secured short term loans denominated in Hong Kong dollar	**3.22**	**2019**	**375,990**	1.75	2018	353,277

The scheduled principal repayment dates of the Group with reference to the loan agreements and ignore the effect of any repayment on-demand clause are as follows:

	2018	2017
	HK$'000	*HK$'000*
Analysed into:		
Other borrowings repayable within one year	**375,990**	353,277

At 31 December 2018, the Group's other loans with investment banks are secured by certain cash deposits and investments with an aggregate carrying value of approximately HK$607,207,000 (2017: HK$724,738,000), and revolving on a weekly basis.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

24. DEFERRED TAX LIABILITIES

The movements in deferred tax liabilities during the year are as follows:

	Depreciation allowance in excess of related depreciation *HK$'000*
At 1 January 2017	1,533
Deferred tax charged to the statement of profit or loss during the year *(Note 10)*	1,460
At 31 December 2017 and 1 January 2018	2,993
Deferred tax charged to the statement of profit or loss during the year *(Note 10)*	426
At 31 December 2018	**3,419**

The Group has tax losses arising in Hong Kong of approximately HK$235,383,000 (2017: HK$140,130,000), subject to agreement by the Inland Revenue Department, that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

25. SHARE CAPITAL

Shares

	2018 *HK$'000*	2017 *HK$'000*
Authorised:		
20,000,000,000 ordinary shares of HK$0.01 each	**200,000**	200,000
Issued and fully paid:		
2,700,000,000 ordinary shares of HK$0.01 each	**27,000**	27,000

Share options

Details of the Company's share option scheme and the share options issued under the scheme are included in Note 26 to the consolidated financial statements.

26. SHARE OPTION SCHEME

The Group's share option scheme (the "2013 Scheme") was adopted pursuant to a resolution passed on 30 May 2013 for the primary purpose of providing incentives to eligible participants. As the previous share option scheme adopted on 27 June 2003 (the "2003 Scheme") would expire on 27 June 2013, during the year ended 31 December 2013. The 2003 scheme was terminated and the 2013 Scheme was adopted by the Company on 30 May 2013. Similar to the 2003 Scheme, the primary purpose of the 2013 Scheme is to provide incentives to eligible participants.

The 2013 Scheme

The Company operates the 2013 Scheme for the purpose of, among others, is to recognise and motivate the contribution of eligible participants to the Group and to provide incentives and help the Company in retaining its existing employees and recruiting additional employees and to provide them with a direct economic interest in attaining the long-term business objectives of the Company. Eligible participants of the 2013 Scheme include any (full-time or part-time) employee, including, without limitation, any executive and non-executive director or proposed executive and non-executive director of the Group, and any adviser, consultant, agent, contractor, client, customer or supplier or any member of the Group. The 2013 Scheme, unless otherwise cancelled or amended, will remain in force for 10 years from 30 May 2013.

The total number of securities available for issue under the 2013 Scheme is 180,000,000, which is equivalent to 10% of the issued share capital of the Company at the date of adoption of the 2013 Scheme. The maximum number of shares issuable under share options to each eligible participant in the 2013 Scheme within any 12-month period, is limited to 1% of the shares of the Company for the time being in issue. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

Share options granted to a director or substantial shareholder of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of 0.1% of the shares of the Company in issue at any time or with an aggregate value (based on the price of the Company's shares at the date of the grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

The offer of a grant of share options may be accepted within 5 business days from the date of the offer upon payment of a nominal consideration of HK$1 by the grantee. The exercise period of the share options granted is determinable by the directors, which is not later than 10 years from the date of offer of the share options or the expiry date of the 2013 Scheme, if earlier.

The exercise price of the share options is determined by the board of directors, but may be not less than the higher of (i) the nominal value of the shares; (ii) the Hong Kong Stock Exchange closing price of the Company's shares on the date of offer of the share options; and (iii) the average Hong Kong Stock Exchange closing price of the Company's shares for the five trading days immediately preceding the date of the offer.

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

No share options under the 2013 Scheme have been granted, exercised, lapsed or cancelled since the establishment of the 2013 Scheme.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

27. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Changes in liabilities arising from financing activities:

	As at 1 January 2018	**Cash flows**	**Non-cash changes**	**As at 31 December 2018**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Other borrowings	**353,277**	**22,713**	**–**	**375,990**

	As at 1 January 2017	Cash flows	Non-cash changes	As at 31 December 2017
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Other borrowings	365,645	(12,368)	–	353,277

28. CORPORATE GUARANTEES

At 31 December 2018, the Company has given corporate guarantees in favour of banks for banking facilities granted to its fellow subsidiary to the extent of approximately HK$108,000,000 (2017: HK$162,000,000), of which approximately HK$108,000,000 (2017: HK$162,000,000) was utilised.

In the opinion of the directors, no material liabilities will arise from the above corporate guarantees which arose in the ordinary course of business of the Group and the fair values of the corporate guarantees granted by the Company are immaterial.

29. OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (Note 15 to the consolidated financial statements) under operating lease arrangements, with leases negotiated for terms ranging from one to three years. The terms of the leases generally require the tenants to pay security deposits.

At 31 December 2018, the Group has total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

	2018	2017
	HK$'000	*HK$'000*
Within one year	**4,861**	2,580
In the second to fifth years, inclusive	**2,609**	89
	7,470	2,669

29. OPERATING LEASE ARRANGEMENTS *(continued)*

(b) As lessee

The Group leases its office premise under operating lease arrangements. Lease for such property is negotiated for term of one year.

At 31 December 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018	2017
	HK$'000	HK$'000
Within one year	**300**	300

30. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following transactions with related parties during the year:

	2018	2017
	HK$'000	*HK$'000*
Fellow subsidiary:		
Rental expenses *(Note)*	**600**	600

Note:

Rental expenses charged by Chater Land Limited were based on office areas occupied by the Group at a rent agreed by both parties.

(b) Compensation of key management personnel of the Group:

	2018	2017
	HK$'000	*HK$'000*
Short term employee benefits	**2,875**	2,760
Post-employment benefits	**18**	18
Total compensation paid to key management personnel	**2,893**	2,778

Further details of directors' and chief executive's emoluments are included in Note 8 to the consolidated financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

31. FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments at the end of the reporting period are as follows:

2018

Financial assets

	Financial assets at fair value through profit or loss – held for trading *HK$'000*	Financial assets at fair value through other comprehensive income – equity investments *HK$'000*	Financial assets at amortised cost *HK$'000*	Total *HK$'000*
Equity investments at FVTOCI	–	692,212	–	692,212
Financial assets included in deposits and other receivables	–	–	517	517
Equity investments at fair value through profit or loss	607,523	–	–	607,523
Cash and cash equivalents	–	–	202,263	202,263
	607,523	692,212	202,780	1,502,515

Financial liabilities

	Financial liabilities at amortised cost *HK$'000*
Financial liabilities included in other payables and accruals	4,262
Other borrowings	375,990
	380,252

31. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

The carrying amounts of each of the categories of financial instruments at the end of the reporting period are as follows: *(continued)*

2017

Financial assets

	Financial assets at fair value through profit or loss – held for trading *HK$'000*	Loans and receivables *HK$'000*	Available-for-sale financial assets *HK$'000*	Total *HK$'000*
Available-for-sale investments	–	–	170,030	170,030
Financial assets included in deposits and other receivables	–	379	–	379
Equity investments at fair value through profit or loss	725,165	–	–	725,165
Pledged deposits	–	74	–	74
Cash and cash equivalents	–	152,945	–	152,945
	725,165	153,398	170,030	1,048,593

Financial liabilities

	Financial liabilities at amortised cost *HK$'000*
Financial liabilities included in other payables and accruals	3,987
Other borrowings	353,277
	357,264

NOTES TO FINANCIAL STATEMENTS

31 December 2018

32. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The fair value of cash and cash equivalents, pledged deposits, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals and other borrowings are not materially different from their carrying amounts because of the immediate or the short term maturities of these instruments.

As detailed in the following table, the directors consider that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate to their fair values:

	Fair value as at		**Fair value hierarchy**	**Valuation technique(s) and key input(s)**	**Significant unobservable inputs**
	2018 *HK$'000*	2017 *HK$'000*			
Assets					
Equity investments at fair value through profit or loss	**607,523**	725,165	Level 1	Quoted bid prices in an active market.	N/A
Unlisted equity investments (2017: Unlisted available-for-sale equity investments)	**692,212**	131,070	Level 3	Net asset value of such unlisted equity investments with an adjustment of discount for lack of marketability under the asset approach. *(Note)*	Discount rate for lack of marketability

Note:

The directors of the Company considered that the relationship of unobservable inputs to the fair value of such investments is in negative relationship that the higher the discount rate adopted in the valuation assessment, the lower the fair value would be resulted.

32. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS *(continued)*

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

	Fair value measurement using			
	Quoted prices in active markets (Level 1) *HK$'000*	**Significant observable inputs (Level 2)** *HK$'000*	**Significant unobservable inputs (Level 3)** *HK$'000*	**Total** *HK$'000*
At 31 December 2018				
Equity investments at FVTOCI	**–**	**–**	**692,212**	**692,212**
Equity investments at fair value through profit or loss	**607,523**	**–**	**–**	**607,523**
	607,523	**–**	**692,212**	**1,299,735**
At 31 December 2017				
Available-for-sale investments:				
Unlisted equity investments	–	–	131,070	131,070
Equity investments at fair value through profit or loss	725,165	–	–	725,165
	725,165	–	131,070	856,235

The movements in fair value measurements within Level 3 during the year are as follows:

	2018 *HK$'000*	2017 *HK$'000*
Equity investments at FVTOCI/ available-for-sale investments – unlisted:		
At 1 January	**131,070**	119,746
Effect of adoption of HKFRS 9	**511,143**	–
At 1 January (restated)	**642,213**	119,746
Total gains recognised in other comprehensive income	**49,999**	11,324
At 31 December	**692,212**	131,070

The Group did not have any financial liabilities measured at fair value at 31 December 2018 and 2017.

During the year ended 31 December 2018, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2017: Nil).

NOTES TO FINANCIAL STATEMENTS

31 December 2018

33. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise other interest-bearing loans, available-for-sale investments, equity investments at FVTOCI, equity investments at fair value through profit or loss, and cash and bank balances. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various financial assets and liabilities such as other receivables and other payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk, liquidity risk and equity price risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's other borrowings with floating interest rates.

The Group's policy to manage its interest rate risk is to reduce or maintain its current level of interest-bearing borrowings. As the Group does not expect to significantly increase its level of interest-bearing borrowings, it has not used any interest rate swaps to hedge its exposure to interest rate risk.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings) and the Group's equity.

	Increase/ (decrease) in basis points	**Increase/ (decrease) in profit before tax** *HK$'000*	**Increase/ (decrease) in equity*** *HK$'000*
2018			
Hong Kong dollar	**50**	**(24)**	**–**
Hong Kong dollar	**(50)**	**24**	**–**
2017			
Hong Kong dollar	50	(24)	–
Hong Kong dollar	(50)	24	–

* *Excluding retained profits*

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

Foreign currency risk

The Group's exposure to market risk for change in foreign currency exchange rates relates primarily to certain investments and certain cash and cash equivalents in currencies other than the functional currency of Hong Kong dollar.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the United States dollar ("USD") exchange rates, with all other variables held constant, of the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities) and the Group's equity.

	Increase/ (decrease) in USD rate %	**Increase/ (decrease) in profit before tax** *HK$'000*	**Increase/ (decrease) in equity*** *HK$'000*
2018			
If Hong Kong dollar weakens against USD	**(5)**	**127**	**–**
If Hong Kong dollar strengthens against USD	**5**	**(127)**	**–**
2017			
If Hong Kong dollar weakens against USD	(5)	109	–
If Hong Kong dollar strengthens against USD	5	(109)	–

* *Excluding retained profits*

NOTES TO FINANCIAL STATEMENTS

31 December 2018

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

Credit risk

As at 31 December 2018 and 2017, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of respective financial assets as stated in the consolidated statement of financial position. The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets, except that the Group holds rental deposits from tenants for leasing of properties.

Trade receivables from rental receivables

In order to minimise the credit risk, the management of the Group will internally assess the credit quality of the potential tenants before accepting any new tenants. Other monitoring procedures are in place to ensure that follow-up action is taken to recover overdue debts. In addition, the Group performs impairment assessment under ECL model upon application of HKFRS 9 (2017: incurred loss model) on trade balances from rental receivables individually or based on provision matrix.

Other receivables

No allowance for impairment was made for other receivables since the directors of the Company consider the probability of default is minimal after assessing the counter-parties' financial background and creditability.

Short-term bank deposits/fixed bank deposits/bank balances

The credit risk on short-term bank deposit, fixed bank deposits and bank balances are limited because the majority of the counterparties are banks with high credit-ratings assigned by international credit-rating agencies. The Group has no other significant concentration of credit risk.

The Group uses four categories for those receivables which reflect their credit risk and how the loss provision is determined for each of those categories.

Category	Group definition of category	Basis for recognition of ECL
Performing	The counterparty has a low risk of default and does not have any past due amounts	12-month ECL
Doubtful	There has been a significant increase in credit risk since initial recognition	Lifetime ECL – not credit impaired
Default	There is evidence indicating the asset is 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

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

Credit risk *(continued)*

The Group applies the simplified approach to provide for ECL prescribed by HKFRS 9, which permits the use of the lifetime ECL for trade receivables from rental receivables. To measure the expected credit losses, these trade receivables have been based on past due status, historical credit loss experience based on the past default experience of the Group and are adjusted with forward-looking information. On that basis, the Group assessed that there is no loss allowance recognised in accordance with HKFRS 9 at 31 December 2018.

For the purpose of impairment assessment for other receivables, the management considered that the credit risk of these financial assets have not significantly increased since initial recognition. The Group has assessed and concluded that the expected credit loss rate for these receivables is immaterial under 12-month ECL method after taken into account the historical default experience, historical settlement records, collateral values as well as the loss upon default in each case and are adjusted with forward-looking information.

Liquidity risk

In the management of its 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 effect of fluctuations in cash flows. The management monitors the utilisation of other borrowings and ensures compliance with relevant covenants.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

	2018				
	On demand and less than 3 months *HK$'000*	**3 to less than 12 months** *HK$'000*	**1 to 5 years** *HK$'000*	**Over 5 years** *HK$'000*	**Total** *HK$'000*
Other borrowings	**376,090**	**–**	**–**	**–**	**376,090**
Other payables and accruals	**4,262**	**–**	**–**	**–**	**4,262**
	380,352	**–**	**–**	**–**	**380,352**

	2017				
	On demand and less than 3 months *HK$'000*	3 to less than 12 months *HK$'000*	1 to 5 years *HK$'000*	Over 5 years *HK$'000*	Total *HK$'000*
Other borrowings	353,304	–	–	–	353,304
Other payables and accruals	3,987	–	–	–	3,987
	357,291	–	–	–	357,291

NOTES TO FINANCIAL STATEMENTS

31 December 2018

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

Equity price risk

Equity price risk is the risk that the fair values of equity securities decrease as a result of changes in the levels of equity indices and the value of individual securities. The Group is exposed to equity price risk arising from listed equity securities classified as equity investments at fair value through profit or loss *(Note 20)* as at 31 December 2018. The Group's listed investments are mainly listed on the Hong Kong Stock Exchange and are valued at quoted market prices at the end of the reporting period.

The market equity indices for the following stock exchange, at the close of business of the nearest trading day in the year to the end of the reporting period, and their respective highest and lowest points during the year were as follows:

	31 December 2018	**High/low 2018**	31 December 2017	High/low 2017
Hong Kong – Hang Seng Index	**25,845**	**33,154/ 24,585**	29,919	30,004/ 22,135

The following table demonstrates the sensitivity to every 10% change in the fair values of the listed and unlisted equity investments, with all other variables held constant and before any impact on tax, based on their carrying amounts at the end of the reporting period. For the purpose of this analysis, for the equity investments at FVTOCI/the available-for-sale equity investments, the impact is deemed to be on the fair value reserve and the available-for-sale investment revaluation reserve, respectively.

	Carrying amount of equity investments *HK$'000*	**Increase/ (decrease) in profit before tax** *HK$'000*	**Increase/ (decrease) in equity*** *HK$'000*
2018			
Investments listed in Hong Kong and overseas			
– Held for trading	**607,523**	**60,752/ (60,752)**	**–**
Unlisted investments at fair value			
– Equity investments at FVTOCI	**692,212**	**–**	**69,221/ (69,221)**
2017			
Investments listed in Hong Kong and overseas			
– Held for trading	725,165	72,517/ (72,517)	–
Unlisted investments at fair value			
– Available-for-sale investments	131,070	–	13,107/ (13,107)

* *Excluding retained profits*

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

Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2018 and 31 December 2017.

The Group monitors capital using a debt-to-equity ratio, which is other borrowings divided by the shareholders' equity. The debt-to-equity ratios at the end of the reporting periods were as follows:

	2018 ***HK$'000***	2017 *HK$'000*
Other borrowings	**375,990**	353,277
Equity attributable to owners of the Company	**1,383,445**	953,053
Gearing ratio	**27.18%**	37.07%

NOTES TO FINANCIAL STATEMENTS

31 December 2018

34. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2018	2017
	HK$'000	*HK$'000*
NON-CURRENT ASSETS		
Investments in subsidiaries	**47,900**	47,900
Club debenture	**670**	670
Total non-current assets	**48,570**	48,570
CURRENT ASSETS		
Amounts due from subsidiaries	**210,439**	211,008
Prepayments and other receivables	**439**	435
Equity investments at fair value through profit or loss	**96**	164
Cash and cash equivalents	**47**	48
Total current assets	**211,021**	211,655
TOTAL ASSETS	**259,591**	260,225
CURRENT LIABILITIES		
Other payables and accruals	**31**	31
NET CURRENT ASSETS	**210,990**	211,624
TOTAL ASSETS LESS CURRENT LIABILITIES	**259,560**	260,194
EQUITY		
Issued capital	**27,000**	27,000
Reserves *(Note)*	**232,560**	233,194
Total equity	**259,560**	260,194

Lau Chi Yung, Kenneth
Chairman

Lau Michael Kei Chi
Vice-Chairman

34. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(continued)*

Note:

A summary of the Company's reserves is as follows:

	Share premium account *HK$'000*	Capital redemption reserve *HK$'000*	Contributed surplus *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*
At 1 January 2017	498,761	546	88,380	(353,898)	233,789
Total comprehensive expense for the year	–	–	–	(595)	(595)
At 31 December 2017 and 1 January 2018	498,761	546	88,380	(354,493)	233,194
Total comprehensive expense for the year	–	–	–	(634)	(634)
At 31 December 2018	**498,761**	**546**	**88,380**	**(355,127)**	**232,560**

The Company's contributed surplus represents the difference arising between the nominal value of the Company's shares issued in exchange for the issued share capital of the subsidiaries and the value of the net assets of the subsidiaries acquired at the time of the Group's reorganisation in prior years. Under the Companies Act of Bermuda, the contributed surplus is distributable to shareholders in certain circumstances prescribed by Section 54 thereof.

35. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 28 March 2019.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

CHAPTER 1 INTRODUCTION

The Company is pleased to present its annual Environmental, Social and Governance Report ("ESG Report") to demonstrate its commitment to sustainable development. This ESG Report has been prepared in accordance with the Environmental, Social and Governance Reporting Guide of Hong Kong Stock Exchange.

The reporting period of this ESG Report is from 1 January 2018 to 31 December 2018. Unless otherwise specified, the reporting boundary of this ESG Report is the same as this Annual Report.

SCOPE OF REPORTING

Head office and the managed properties of the Company were chosen for inclusion in this ESG Report because of their significant contributions to the Company:

Property Name	Property Type
Units 22-28, 25/F., Tower A, Southmark	Business

A detailed ESG content index is included at the back of this report to help increase transparency and understanding. Additional ESG performance information, including financial data and corporate governance information, can be found in the Annual Report.

CHAPTER 2 OVERVIEW OF ESG PERFORMANCE

The following programmes have been arranged for 2018 to match with the direction for social responsibility set by the Group.

Subject Areas	Aspects	Policy/Legal compliance	Programmes highlights
Environment	Emissions	✓	Implement environmental measures to reduce, reuse and recycle
	Use of Resources	✓	Implementation of energy saving measures
	The Environment and Natural Resources	✓	Minimise paper consumption
Social – Employment and Labour Practices	Employment	✓	Provide medical insurance and employee trainings
	Health and Safety	✓	Commitment to creating a safe working environment
	Development and Training	✓	Committed to achieving zero working accidents
	Labour Standards	✓	Act in accordance with Hong Kong Employment Ordinance and PRC regulations
Social – Operating Practices	Supply Chain Management	✓	Review contractor performance to reduce waste and avoid using hazardous material
	Product Responsibility	✓	Ensure the hand-over quality of properties to customers measures up to the Company's pre-set high level of standard
	Anti-corruption	✓	All employees follow anti-corruption policies
Social – Community	Community Investment	✓	Set up waste recycling facilities

CHAPTER 3 ENVIRONMENT

3.1 EMISSIONS CONTROL MANAGEMENT

The Group is committed to the following emission control measures relating to air, greenhouse gas emissions, water and land discharges, and generation of hazardous and non-hazardous waste:

- Promote and implement environmental management including greenhouse gas emission, water and land discharges, and generation of hazardous and non-hazardous waste management to reduce any environmental impact;
- Comply with the relevant environmental legislation and requirements;
- Provide sufficient resources for the implementation of pollution abatement, waste management and natural environmental mitigation.

For air emission control, the Group has adopted a business travelling policy to reduce the use of company vehicles in favor of public transportation in order to minimise the air emission from vehicles. Conference calls instead of face-to-face meetings are also arranged where possible.

Total Greenhouse Gas Emissions

Emission	Scope 1		Scope 2		Scope 3		Total	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017
Carbon dioxide equivalent (tonnes)	**0.37**	0.22	**7.12**	6.72	**0**	0	**7.49**	6.94

Note: Scope 1 includes mobile combustion emission; scope 2 includes energy indirect emissions; scope 3 includes electricity used for fresh water and sewage processing. Insignificant emission amounts are neglected in calculations.

As for hazardous wastes, all properties follow the Waste Disposal Ordinance and related Regulations to identify and classify hazardous waste, establish designated storage areas and appoint responsible property and technical staff to manage. For waste reduction initiatives, the Group minimises the use of plastic products and recycles used materials in company activities.

We hope these measures can help ease the pressure on landfill space and bring benefits to the environment.

Total Waste Produced

Waste	Hazardous waste		Non-hazardous waste	
	2018	2017	**2018**	2017
Tonnes	**0**	0	**0**	0

Note: hazardous waste is defined as chemical waste (Cap. 354C. of the Laws of Hong Kong), clinical waste (Cap. 354, Cap. 354O of the Laws of Hong Kong, and various pieces of additional legislation) and hazardous chemicals (Cap. 595 of the Laws of Hong Kong)

As at 31 December 2018, the Group was in compliance with all local rules and regulations relating to air, greenhouse gas emissions, water and land discharges, and generation of hazardous and non-hazardous waste.

3.2 EFFECTIVE USE OF RESOURCES

The Group's resources usage strategy focuses on reducing paper usage by using computer filing in place of printed formal copies filing. For material saving, we promote sustainable use of resources in order to reduce waste. For instance, head office and properties are encouraged to purchase recyclable goods.

In energy saving strategy, the Group is committed to continual improvement in energy performance; complies with all applicable legal requirements; staff is reminded to switch off lights, air-conditioning, printers and computers at workstations when they are not in use. The room temperature is maintained at 25 degrees Celsius in summer to save energy. Energy efficient office equipment is always preferred in making purchase decisions. As a result, we have made progress in being energy efficient.

Total Energy Consumption

Electricity (kWh in '000s)		Renewable Energy (kWh in '000s)		Total (kWh in '000s)	
2018	2017	**2018**	2017	**2018**	2017
9.01	8.51	**0**	0	**9.01**	8.51

In accordance with suggestions by the Water Supplies Department, we take various water saving measures to ensure water is utilised efficiently. These measures include installation of flow controllers in water taps. As a result, we have maximised our water utilisation efficiency.

Total Water Consumption

Total (m^3)	
2018	2017
0	0

3.3 THE ENVIRONMENT AND NATURAL RESOURCES

The Group's business operations aim to align with environmental best practices. The Group is careful to minimise major impacts on the environment and natural resources by implementing green practices. We have identified paper consumption in the Group's offices as a significant impact on the environment and natural resources. As a result, staff are encouraged to reduce paper consumption and wastage by double-sided printing, reusing papers and recycling paper materials. Furthermore, the Group is also committed to being responsible in its energy consumption and supports the purchase of energy efficient products and equipment such as LED lights that helps reduce energy use.

CHAPTER 4 PEOPLE

4.1 RESPECT FOR LABOUR RIGHTS

The Group strives to maintain a harmonious workplace where employees are free from any form of discrimination. We respect diversity and fairness in recruitment and promotion of our employees, regardless of race, social class, age, nationality, religion, disability, gender or sexual orientation.

The Group strives to maintain a positive work-life balance to employees that provides reasonable working hours and rest periods. We organise regular entertainment activities to reduce the stress on employees.

The Group does not condone forced labour. All employees may resign upon reasonable notice. The Group prohibits child labour, forced labour and illegal workers in any workplace and has comprehensive steps to review the employment practices and eliminate undesired practices if discovered.

All matters related to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination and other benefits and welfare are structured to comply with legislation within the Employment Ordinance (Cap. 57), Employees' Compensation Ordinance (Cap. 282), Personal Data (Privacy) Ordinance (Cap. 486), Sex Discrimination Ordinance (Cap. 480) and Disability Discrimination Ordinance (Cap. 487) in Hong Kong, or related local labour legislations.

4.2 SAFETY AND HEALTH

The Group is committed to maintaining a high standard of health and safety and acts in compliance with occupational safety and health legislation, (such as Occupational Safety And Health Ordinance by the Labour Department). The Group requires that all levels of management and supervisors actively participates in and adopts ways to create a safe working environment and protect employees from occupational hazards. Our workplace has been provided with first aid boxes for emergency preparedness.

The Group values the health and well-being of our staff. In order to provide employees with health coverage, staff are entitled to benefits including medical insurance, provident funds and other competitive fringe benefits. We also regularly arrange tours and team development activities for staff to strengthen the employees' sense of affinity to the Group.

4.3 EDUCATION, TRAINING AND CAREER DEVELOPMENT

Training and competence of staff are crucial to the continuous growth of the business of the Group. Through comprehensive staff development, we broaden the professional knowledge, skills and qualifications of our staff, with the aim of creating a solid foundation for the Group's sustainable development in business.

We are committed to providing opportunities to our employees to acquire job-related training and development, mainly through on-the-job training, seminars, workshops, site visits and formal training programmes. On top of on-the-job training, staff are encouraged to take external professional training to strengthen their work-related expertise.

CHAPTER 5 OPERATING PRACTICES

5.1 QUALITY AND COMPLIANCE MANAGEMENT

As a company which mainly engage in property leasing and management activities, the Group aims to deliver to our tenants good properties and services:

- When the property is handed over, a contact list will be provided to the tenant. For any enquiry about tenancy matters or repair requests, the leasing managers will be the key contact point, and will then gather the necessary information from the respective departments and give a reply to the tenant. Means of communication include email, fax and phone.

- The handover quality are based on the Company's pre-set high level of standards.

All of our properties have implemented four key steps in quality and compliance control flow:

- During the lease negotiation stage, and before the lease offer is sent out, the Real Estate Department has understanding on the condition of the flat, work agenda to be agreed and the expected handover condition.

- The Real Estate Department also works out the scope of work based on the offered terms and the existing condition of the flat.

- For repairs and maintenances work for our tenants, we will send representatives to check the status of work from time to time and take photographs for record to ensure quality of work.

- After work completion and before handover, the Real Estate Department will check on the flat's condition to ensure all the agreed work items have been completed to the company's satisfaction.

We highly value feedback or complaints from our stakeholders to continuously improve our business. Also, a comprehensive complaint handling procedure has been established to resolve complaints in a timely and effective manner.

Complaints usually relates to repair and maintenance. Upon receipt of a tenant's complaint, the following procedures will be carried out:

- Conduct inspection by our in-house technicians to assess the problem and determine whether the work can be fixed in-house or need to be outsourced.

- For urgent cases, representatives from the Real Estate Department will visit the site on the day or the day following the complaint to decide upon the scale and scope of rectification works.

- Temporary measures to prevent the situation from deteriorating will be carried out, if possible.

- To obtain a quotation for management approval and to have works carried out at a date/time mutually agreed between the landlord and the tenant.

For customer privacy protection, individual record sheets are provided for visitors to fill in their particulars. The data will only be used for record purposes and prevention of crime. The data collected will be destroyed within one (1) month to ensure data protection. The Property Manager on-site is responsible for monitoring the implementation of such measure.

As at 31 December 2018, the Group was in compliance with all local rules and regulations relating to health and safety, advertising, labelling and privacy matters relating to works and services provided and methods of redress.

5.2 SUPPLY CHAIN MANAGEMENT

Contractors and suppliers are our important business partners; therefore, active engagement with them is important to the effectiveness of every operation and managing environmental and social risks of the supply chain.

For any given project, we select contractors and suppliers based on a number of environmental and social risk factors, including a performance review in waste reduction and material usage each time when job is completed by suppliers. We also inform our contractors and suppliers about all rules during work. For example, noisy work is not allowed on public holidays. For protection of the environment and customer health and safety, we prohibit the use of hazardous materials and request contractors and suppliers to adopt the materials that fulfil international environmental standards and follow waste handling guidelines. We also instruct our contractors and suppliers to provide information related to environmental protection, together with quotations and contracts.

Besides giving work suggestions and methods to contractors during project execution, we engage contractors and suppliers through various channels such as face-to-face meetings, site visits, phone conferences, email, etc. We believe we maintain good relationships with our contractors and suppliers. We consider such long-standing relationships with contractors enable us to have a comprehensive assessment of the contractors over the years, ensuring the quality of works in the long run.

5.3 MORAL INTEGRITY AND ANTI-CORRUPTION

The Company upholds high standards on promoting anti-corruption, with all its employees and directors are required to maintain a high level of business ethics. The Audit Committee has the overall responsibility for matters related to the internal controls of anti-corruption.

Whistle-blowing procedures apply to all parties including internal as well as external informers. Any complaints or possible breach of the Corporate Governance Code under Appendix 14 of the Listing Rules can be made either verbally or by confidentially writing to the Audit Committee; all issues will be treated promptly and fairly. In cases of suspected corruption or other criminal offences, a report may be made to the appropriate authority.

As at 31 December 2018, the Group was in compliance with all local rules and regulations relating to bribery, extortion, fraud and money laundering. There were no concluded legal cases regarding corrupt practices brought against the Group or its employees.

CHAPTER 6 COMMUNITY INVESTMENT

6.1 COMMUNITY PARTICIPATION

The Company is aware of the importance of interacting with the wider community in fulfilling corporate social responsibility. In this regard, the Company would explore the possibility to identify suitable partners and support community and environmental programmes that align with the Company's missions and values.

The Company believes the best way to serve the community is to drive positive impact through our investment portfolio. To create shared values with the community and stakeholders, the Company will continue to consider ESG factors in selecting future investment projects.

APPENDIX 1 HKSE ESG REPORTING GUIDE CONTENT INDEX TABLE

HKSE ESG Reporting Guide	Description	Chapter	Remark
A. Environmental			
Aspect A1: Emissions			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	3.1 Emissions Control Management	
KPI A1.1	The types of emissions and respective emissions data.	3.1 Emissions Control Management	
KPI A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	3.1 Emissions Control Management	
KPI A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	3.1 Emissions Control Management	

HKSE ESG Reporting Guide	Description	Chapter	Remark
KPI A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	3.1 Emissions Control Management	
KPI A1.5	Description of measures to mitigate emissions and results achieved.	3.1 Emissions Control Management	
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	3.1 Emissions Control Management	
Aspect A2: Use of Resources			
General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	3.2 Effective Use of Resources	
KPI A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in ’000s) and intensity (e.g. per unit of production volume, per facility).	3.2 Effective Use of Resources	
KPI A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	3.2 Effective Use of Resources	

HKSE ESG Reporting Guide	Description	Chapter	Remark
KPI A2.3	Description of energy use efficiency initiatives and results achieved.	3.2 Effective Use of Resources	
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	3.2 Effective Use of Resources	
KPI A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.		Packaging material is not identified as a material aspect in business of the Company. Such disclosure is omitted.
Aspect A3: The Environment and Natural Resources			
General Disclosure	Policies on minimising the issuer's significant impact on the environment and natural resources.	3.3 The Environment and Natural Resources	
KPI A3.1	Description of the significant impact of activities on the environment and natural resources and the actions taken to manage them.	3.3 The Environment and Natural Resources	

HKSE ESG Reporting Guide	Description	Chapter	Remark
B. Social			
Employment and Labour Practices			
Aspect B1: Employment			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	4.1 Respect for Labour Rights	

HKSE ESG Reporting Guide	Description	Chapter	Remark
Aspect B2: Health and Safety			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	4.2 Safety and Health	
Aspect B3: Developing and Training			
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	4.3 Education, Training and Career Development	
Aspect B4: Labour Standards			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	4.1 Respect for Labour Rights	
Operating Practices			
Aspect B5: Supply Chain Management			
General Disclosure	Policies on managing environmental and social risks of the supply chain.	5.2 Supply Chain Management	

HKSE ESG Reporting Guide	Description	Chapter	Remark
Aspect B6: Product Responsibility			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	5.1 Quality and Compliance Management	
Aspect B7: Anti-corruption			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	5.3 Moral Integrity and Anti-corruption	
Community			
Aspect B8: Community Investment			
General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	6.1 Community Participation	

PROPERTY PORTFOLIO OF THE GROUP

No.	Property	Use	Group's effective holding	Gross Floor Area (Approx. sq.ft.)	Gross Floor Area attributable to the Group (Approx. sq.ft.)	Lease Term
Hong Kong						
1	Flat E, 18th Floor, Block H-9, Fu Yip Yuen, Chi Fu Fa Yuen, No. 9 Chi Fu Road, Hong Kong	Residential	100%	518	518	75 years from 19 October 1976 renewable for a further term of 75 years
2	Flat H, 18th Floor, Block H-14, Fu Chun Yuen, Chi Fu Fa Yuen, No. 14 Chi Fu Road, Hong Kong	Residential	100%	518	518	75 years from 19 October 1976 renewable for a further term of 75 years
3	Flat H, 21st Floor, Block H-12, Fu Yar Yuen, Chi Fu Fa Yuen, No. 12 Chi Fu Road, Hong Kong	Residential	100%	518	518	75 years from 19 October 1976 renewable for a further term of 75 years
4	Units 1 to 3, 5, 6, 21 to 23 and 25 to 28 on 19th Floor, Pacific Link Tower, Southmark, No. 11 Yip Hing Street, Wong Chuk Hang, Hong Kong	Commercial	100%	11,439	11,439	A term from 17 December 1991 to 30 June 2047
5	Car Parking Space (Private Carpark) No. P101 on 1st Floor and Nos. P201 and P202 on 2nd Floor, Southmark, No. 11 Yip Hing Street, Wong Chuk Hang, Hong Kong	Car Park	100%	N/A	N/A	A term from 17 December 1991 to 30 June 2047
6	Flat A (Including the Balcony thereof), on the 12th Floor, Tower 8, Larvotto, No. 8 Ap Lei Chau Praya Road, Hong Kong	Residential	100%	1,317	1,317	A term from 25 January 1995 to 30 June 2047
7	Units B1 and B2 on 2nd Floor, Blue Box Factory Building, No. 25 (Formerly No. 15) Hing Wo Street, Hong Kong	Industrial	100%	9,080	9,080	75 years from 23 March 1970 renewable for a further term of 75 years

PROPERTY PORTFOLIO OF THE GROUP

No.	Property	Use	Group's effective holding	Gross Floor Area (Approx. sq.ft.)	Gross Floor Area attributable to the Group (Approx. sq.ft.)	Lease Term
8	Flat A (Including the Bay Window, the Balcony, the Utility Platform thereof and the Air-Conditioning Plant Room Appertaining thereto) on the 30th Floor, Tower 1 and Car Parking Space No. 16 on the Ground Floor, Larvotto, No 8 Ap Lei Chau Praya Road, Hong Kong	Residential/ Car Park	100%	2,545	2,545	A term from 25 January 1995 to 30 June 2047
The PRC						
9	Unit No.7-10-I on Level 10 of Block No. 7, No. 68 Xinzhong Street, Dongcheng District, Beijing, The PRC	Residential	100%	1,132	1,132	Up to 1 November 2063

Note:

N/A – Not Applicable