2017
ANNUAL REPORT

中策集團有限公司

China Strategic Holdings Limited

(Incorporated in Hong Kong with limited liability)

(Stock Code: 235)

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Abbreviations

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

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

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

Corporate Information

BOARD OF DIRECTORS

Non-executive Director

Dr. Or Ching Fai *(Chairman)*

Executive Directors

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

Independent Non-executive Directors

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

EXECUTIVE COMMITTEE

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

INVESTMENT & CREDIT COMMITTEE

Mr. Sue Ka Lok *(Chairman)*
Mr. Chow Kam Wah

COMPANY SECRETARY

Ms. Chan Yuk Yee

REGISTERED OFFICE

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

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
Hang Seng Bank Limited
Bank of Communications Co., Ltd., Hong Kong Branch
BNP Paribas Hong Kong Branch

LEGAL ADVISERS

Reed Smith Richards Butler
Stevenson, Wong & Co.

AUDITOR

Deloitte Touche Tohmatsu
Certified Public Accountants

SHARE REGISTRAR AND TRANSFER OFFICE

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

TRADING OF SHARES

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

WEBSITE

http://www.cshldgs.com

* *The above information is updated to 20 April 2018, the latest practicable date before printing of this annual report.*

Chairman's Statement

On behalf of the Board, I am pleased to present to the shareholders the results of the Group for the year ended 31 December 2017.

RESULTS

For the year under review, the Group continued to principally engage in the business of investment in securities, trading, money lending as well as securities brokerage.

The Group's revenue increased significantly by over 3.9 times to HK$1,337,246,000 for the current year (2016: HK$270,706,000) that was largely due to the increase in interest income generated by the money lending business and the increase in sales of the trading operation.

The Group reported a profit attributable to owners of the Company of HK$126,193,000 in contrast to the loss recorded in the prior year (2016: loss attributable to owners of the Company of HK$436,870,000) and basic earnings per share of HK0.74 cent (2016: loss per share of HK2.57 cents). The profitable results recorded by the Group were mainly due to the profit recognised by the Group's securities investment operation of HK$165,454,000 (2016: loss of HK$549,495,000) coupled with the significant increases in profit generated by the Group's money lending, trading and securities brokerage business amounting to HK$186,184,000 (2016: HK$87,971,000), HK$9,965,000 (2016: HK$1,534,000) and HK$6,885,000 (2016: HK$3,417,000) respectively.

PROSPECTS

Having gone through a challenging year in 2016, the business environment of the Group has shown signs of stabilisation in 2017. There have been indications showing recovery in business confidence and investor sentiments in major economies, including China and the United States, and increase in international trade flows including commodities, particularly in the second half of 2017. The market uncertainties linked with the geopolitical risks in Korean peninsula, the pace of interest rate increase in the United States, and the instabilities in the European economy arising from the Brexit negotiations were lessened in recent months, nevertheless, the possible rise of trade protection sentiment in the United States and the potential changes in international capital flows caused by its tax reform have added new variables to outlook of global financial markets. The investment and stock markets in Hong Kong have been rather volatile recently, against this backdrop, the management will continue to adopt a cautious and disciplined approach in managing the Group's securities investment portfolio. The Group's money lending business has delivered very encouraging results for the current year. It is the management's intention to continue developing this business under prudent credit management with the aim that it will continue to contribute a stable and favorable income stream to the Group in future years. The Group's trading business has also shown solid progress during the year and the management will continue its effort to explore new trade opportunities to further improve the financial performance of the operation. The Group's securities brokerage business has been creating synergy benefits with the Group's securities investment and money lending businesses and it is the Group's plan to devote additional financial resources to continue developing this business. Looking ahead, the Group will continue its business strategy of building an asset portfolio with good balance of recurring income streams and growth opportunities, to adopt measures to enhance operational efficiencies and financial performance of the Group, and to seize business opportunities with attractive returns aiming to create value to our shareholders.

Chairman's Statement

APPRECIATION

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

Dr. Or Ching Fai
Chairman

Hong Kong, 20 March 2018

Management Discussion and Analysis

BUSINESS REVIEW

For the year ended 31 December 2017, the Group continued to principally engage in the business of investment in securities, trading of metal minerals, metal, coke products and electronic components, money lending as well as securities brokerage.

For the year under review, the Group's revenue increased significantly by over 3.9 times to HK$1,337,246,000 (2016: HK$270,706,000) that was largely due to the increase in interest income generated by the money lending business and the increase in sales of the trading operation.

Investment in Securities

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

At 31 December 2017, the Group's investment in securities operation held a financial asset at fair value through profit or loss ("FVTPL") portfolio valued at HK$1,270,302,000 (2016: HK$744,407,000), comprising equity securities listed in Hong Kong and unlisted convertible securities, and an available-for-sale ("AFS") investment portfolio (constituted by non-current and current portions) valued at HK$1,323,380,000 (2016: HK$922,917,000), comprising listed debt securities in Hong Kong or overseas and equity securities listed in Hong Kong. As a whole, the operation recorded a revenue of HK$88,110,000 (2016: HK$89,844,000) and a profit of HK$165,454,000 (2016: loss of HK$549,495,000).

Financial assets at FVTPL

At 31 December 2017, the Group held a financial asset at FVTPL portfolio amounting to HK$1,270,302,000 measured at market/fair value. During the year under review, the portfolio generated a revenue of HK$20,355,000 (2016: HK$15,762,000) representing dividends from equity securities of HK$12,531,000 (2016: HK$13,015,000) and interest income from convertible and debt securities of HK$7,824,000 (2016: HK$2,747,000). The Group recognised a net gain on financial assets at FVTPL of HK$65,345,000, which comprised net unrealised gain and net realised loss of HK$170,317,000 and HK$104,972,000 respectively (2016: net loss on financial assets at FVTPL of HK$635,753,000, which comprised net unrealised loss and net realised loss of HK$152,083,000 and HK$483,670,000 respectively). The unrealised gain earned by the financial asset at FVTPL portfolio was largely due to the general upturn and strong momentum in financial market in Hong Kong during the second half of 2017.

At 31 December 2017, the Group invested in different categories of companies and their weightings to the market/fair value of the Group's financial asset at FVTPL portfolio of HK$1,270,302,000 are as below:

Category of companies	**Approximate weighting to the market/fair value of the Group's financial asset at FVTPL portfolio** **%**
Banking	1.16
Conglomerate	63.42
Entertainment and media	1.71
Infrastructure	12.82
Jewelry, pharmaceutical and health food products retailing	6.17
Property	9.74
Others	4.98
	100.00

Management Discussion and Analysis

At 31 December 2017, the weightings of the Group's top five investments to the market/fair value of the Group's financial asset at FVTPL portfolio of HK$1,270,302, 000 (together with other information) are as below:

Company name	Approximate weighting to the market/ fair value of the Group's financial asset at FVTPL portfolio %	% of shareholding interest %	Acquisition costs HK$'000	*Acquisition costs during the year/ carrying amount as at 1 January 2017 HK$'000	Market/fair value as at 31 December 2017 HK$'000	Accumulated unrealised gain (loss) recognised up to 31 December 2017 HK$'000	Unrealised gain (loss) recognised during the year ended 31 December 2017 HK$'000
			A	B	C	D = C – A	E = C – B
Equity securities							
Evergrande Health Industry Group Limited (stock code: 708)	30.55	1.45	99,533	184,632	388,104	288,571	203,472
The Cross-Harbour (Holdings) Limited (stock code: 32)	12.82	3.39	77,377	141,422	162,888	85,511	21,466
Get Nice Holdings Limited (stock code: 64)	7.09	3.10	78,000	78,000	90,000	12,000	12,000
Emperor International Holdings Limited (stock code: 163)	6.79	0.89	77,630	77,940	86,203	8,573	8,263
Convertible securities							
Huajun Holdings Limited (stock code: 377)	13.73	N/A	175,000	175,000	174,418	(582)	(582)
Others	29.02	N/A	593,731	442,991	368,689	(225,042)	(74,302)
	100.00		1,101,271	1,099,985	1,270,302	169,031	170,317

* The amount represented the costs of the securities acquired during the year ended 31 December 2017 and/or the carrying amount of the securities brought forward from the prior financial year after accounting for additional acquisition and/or disposal of the securities (if any) during the current financial year.

The tables below set out the (i) unrealised gain (loss) recognised for the year ended 31 December 2017 for the financial assets at FVTPL held by the Group as at 31 December 2017 together with information on financial performance of the investee companies and their future prospects; and the (ii) realised gain (loss) on financial assets at FVTPL disposed of during the year ended 31 December 2017. The Group is committed to closely monitor the financial performance of its financial asset at FVTPL portfolio through making investment and divestment decisions on individual securities from time to time based on, amongst others, internal assessments on prospects of individual securities and publicly available information of investee companies.

(i) Unrealised gain (loss) recognised for the year ended 31 December 2017 for the financial assets at FVTPL held by the Group as at 31 December 2017 together with information on financial performance of the investee companies and their future prospects

Industry	Abbreviation of investee company	#Principal activities of investee company	*Acquisition costs during the year/ carrying amount as at 1 January 2017 *HK$'000*	% of shareholding interest *%*	Market/fair value as at 31 December 2017 *HK$'000*	% to total market/ fair value of the Group's financial asset at FVTPL portfolio *%*	Unrealised gain (loss) recognised during the year ended 31 December 2017 *HK$'000*	#Investee company's financial performance	#Future prospects of the investee company
Equity securities listed in Hong Kong									
Banking	A	Banking business	11,456	negligible	14,679	1.16	3,223	For the year ended 31 December 2017, interest income, as its major source of revenue, decreased by 3% to US$40,995 million while profit for the year increased by 245% to US$11,879 million as compared to 2016.	With an international network covering 90% of global trade flows and a leading presence in the world's fastest growing region, the investee company of the view that it is in a prime position to help its customers capitalise on the broad-based global growth.
			11,456		**14,679**	**1.16**	**3,223**		
Conglomerate	B	Manufacturing and trading of toys, securities investments and medical and health	20,882	2.89	10,282	0.81	(10,600)	For the year ended 31 December 2017, revenue increased by 150% to HK$589,933,000 and loss for the year decreased by 66% to HK$77,733,000 as compared to 2016.	The investee company expects its toys division will continue to perform satisfactorily and will continue to invest in the research studies of medical project.
	C	Trading of securities, industrial water supply business, property development and trading and other strategic investments	99,540	4.89	50,904	4.01	(48,636)	For the six months ended 30 September 2017, revenue increased by 256% to HK$90,294,000 while its results experienced a turnaround and recorded a loss for the period of HK$140,215,000 as compared to the same period in 2016.	The investee company commences to receive rental income from its flagship projects and will further diversify its shopping mall "experience" to create more footfall that brings a positive contribution to both occupancy rate and rental return.

Management Discussion and Analysis

(i) Unrealised gain (loss) recognised for the year ended 31 December 2017 for the financial assets at FVTPL held by the Group as at 31 December 2017 together with information on financial performance of the investee companies and their future prospects (continued)

Industry	Abbreviation of investee company	#Principal activities of investee company	*Acquisition costs during the year/ carrying amount as at 1 January 2017 HK$'000	% of shareholding interest %	Market/fair value as at 31 December 2017 HK$'000	% to total market/ fair value of the Group's financial asset at FVTPL portfolio %	Unrealised gain (loss) recognised during the year ended 31 December 2017 HK$'000	#Investee company's financial performance	#Future prospects of the investee company
	D	Treasury management, property investment and property leasing	13,074	0.95	17,756	1.40	4,682	For the year ended 31 December 2017, revenue increased by 14% to HK$34,293,000 and profit for the year increased by 484% to HK$127,505,000 as compared to 2016.	The investee company focuses on enhancing and maintaining a solid foundation for its profit by increasing its exposure in investment properties for recurring and stable rental income with reasonable return, and expanding its money lending business to earn interest income for future growth.
	E+	Broking and securities margin financing, money lending, corporate finance and investments	78,000	3.10	90,000	7.09	12,000	For the six months ended 30 September 2017, revenue increased by 6% to HK$257,963,000 and profit for the period increased by 72% to HK$178,765,000 as compared to the same period in 2016.	The investee company expands its securities margin financing and broking business, further develops its underwriting and placing service and will keep seeking quality and upscale investment properties and investment in securities to enhance its investment portfolio which provides a source of steady rental income and investment gains.
	F	Manufacture and trading of optical frames and sunglasses, property investment, debts and securities investment and money lending business	49,010	4.85	39,585	3.12	(9,425)	For the six months ended 30 September 2017, revenue decreased by 38% to HK$55,061,000 and loss for the period increased by 219% to HK$46,408,000 as compared to the same period in 2016.	After acquiring a residential property, the investee company will continue the strategy of diversifying its business activities and income streams with the view of enhancing its overall performance.

(i) Unrealised gain (loss) recognised for the year ended 31 December 2017 for the financial assets at FVTPL held by the Group as at 31 December 2017 together with information on financial performance of the investee companies and their future prospects (continued)

Industry	Abbreviation of investee company	#Principal activities of investee company	*Acquisition costs during the year/ carrying amount as at 1 January 2017 *HK$'000*	% of shareholding interest %	Market/fair value as at 31 December 2017 *HK$'000*	% to total market/ fair value of the Group's financial asset at FVTPL portfolio %	Unrealised gain (loss) recognised during the year ended 31 December 2017 *HK$'000*	#Investee company's financial performance	#Future prospects of the investee company
	G[+]	Provision of services on publication and sales of magazines, digital business services and provision of medical cosmetology, anti-aging and other health services	184,632	1.45	388,104	30.55	203,472	For the year ended 31 December 2017, revenue from continuing operations increased by 522% to RMB1,328,474,000 and profit for the year from continuing operations increased by 516% to RMB304,957,000 as compared to 2016.	With the increasingly challenging and highly competitive business environment in the media segment, the investee company disposed of the media operation in late 2017 and focuses on its strategic development in its healthcare business.
	H	Acquisition, exploration, development and mining of copper and other mineral resources; property investment and investments in financial instruments	34,824	1.50	23,796	1.87	(11,028)	For the six months ended 30 September 2017, revenue decreased by 16% to US$14,124,000 while its results experienced a turnaround and recorded a profit for the period of US$50,647,000 as compared to the same period in 2016.	The investee company continues its mining business, continues to prudently expand its money lending business and will seek more opportunities globally to broaden its property investment portfolio to generate rental income and/ or capital appreciation, as well as to produce future economic benefits.
	Others	–	50,089	N/A	10,710	0.84	(39,379)	–	–
			530,051		**631,137**	**49.69**	**101,086**		
Entertainment and media	I	Film and TV programme production and investment, event production and investment, music production and others, cinema operation, post production services and investment in securities	25,626	2.85	21,782	1.71	(3,844)	For the six months ended 31 December 2017, revenue decreased by 37% to HK$21,382,000 and loss for the period increased by 297% to HK$69,946,000 as compared to the same period in 2016.	The investee company is cautious but optimistic about the long-term sustainable growth of China's film and entertainment market and will put more efforts in extending its cinema coverage in first tier and second tier cities of Mainland China as well as Hong Kong.
			25,626		**21,782**	**1.71**	**(3,844)**		

(i) Unrealised gain (loss) recognised for the year ended 31 December 2017 for the financial assets at FVTPL held by the Group as at 31 December 2017 together with information on financial performance of the investee companies and their future prospects (continued)

Industry	Abbreviation of investee company	#Principal activities of investee company	*Acquisition costs during the year/ carrying amount as at 1 January 2017 HK$'000	% of shareholding interest %	Market/fair value as at 31 December 2017 HK$'000	% to total market/ fair value of the Group's financial asset at FVTPL portfolio %	Unrealised gain (loss) recognised during the year ended 31 December 2017 HK$'000	#Investee company's financial performance	#Future prospects of the investee company
Infrastructure	J+	Operation of motoring schools, tunnels and an electronic toll collection system, and investment	141,422	3.39	162,888	12.82	21,466	For the year ended 31 December 2017, revenue increased by 7% to HK$461,591,000 and profit for the year increased by 169% to HK$1,227,242,000 as compared to 2016.	Reported increase in profit for the year ended 31 December 2017 and continued to offer stable dividend payout. The investee company will continue with its existing principal business.
			141,422		**162,888**	**12.82**	**21,466**		
Jewelry, pharmaceutical and health food products retailing	K	Designing, sales and retailing of fine jewerly products in Hong Kong & Singapore; sourcing, processing, repackaging & retailing of Chinese pharmaceutical products, dry seafood, health products & foodstuff in Hong Kong, China & Macau	17,280	4.74	78,400	6.17	61,120	For the year ended 31 December 2017, revenue increased by 65% to HK$434,748,000 while loss for the year increased by 874% to HK$816,569,000 as compared to 2016.	The investee company remains cautiously optimistic in the luxury jewelry market in the long-run and will explore opportunities to broaden the geographic base of customers to markets outside Hong Kong and Singapore. It will review the sales network and introduce more locally made products for its pharmaceutical business.
			17,280		**78,400**	**6.17**	**61,120**		

(i) Unrealised gain (loss) recognised for the year ended 31 December 2017 for the financial assets at FVTPL held by the Group as at 31 December 2017 together with information on financial performance of the investee companies and their future prospects (continued)

Industry	Abbreviation of investee company	#Principal activities of investee company	*Acquisition costs during the year/ carrying amount as at 1 January 2017 *HK$'000*	% of shareholding interest %	Market/fair value as at 31 December 2017 *HK$'000*	% to total market/ fair value of the Group's financial asset at FVTPL portfolio %	Unrealised gain (loss) recognised during the year ended 31 December 2017 *HK$'000*	#Investee company's financial performance	#Future prospects of the investee company
Property	L	Provision of leasing space at warehouses, icehouses and other facilities and operation of agriculture business	23,574	0.27	26,299	2.07	2,725	For the year ended 31 December 2017, revenue from continuing operation decreased by 1% to RMB988,112,000 and loss for the year from continuing operation increased by 44% to RMB127,050,000 as compared to 2016.	After substantial disposal of the underground shopping malls, the investee company focuses on the provision of leasing space at warehouses, icehouses and other facilities and enhances the efficiency of the existing agriculture wholesale markets in order to be the best operator in China.
	M+	Property investments, property development and hospitality	77,940	0.89	86,203	6.79	8,263	For the six months ended 30 September 2017, revenue decreased by 34% to HK$1,465,986,000 while its results experienced a turnaround and recorded a profit for the period of HK$1,684,417,000 as compared to the same period in 2016.	The investee company adopts a pro-active approach to establishing an investment property portfolio by optimising the balance between retail and non-retail premises. In addition, the investee company continues to source quality and upscale investment properties with good potential to enhance its investment property portfolio and lay a solid foundation for expanding recurrent rental income in the long-run.
	Others	-	13,708	N/A	11,241	0.88	(2,467)	-	-
			115,222		**123,743**	**9.74**	**8,521**		
Others	**-**	-	14,594	N/A	12,921	1.02	(1,673)	-	-
			14,594		**12,921**	**1.02**	**(1,673)**		

Management Discussion and Analysis

(i) Unrealised gain (loss) recognised for the year ended 31 December 2017 for the financial assets at FVTPL held by the Group as at 31 December 2017 together with information on financial performance of the investee companies and their future prospects (continued)

Industry	Abbreviation of investee company	#Principal activities of investee company	*Acquisition costs during the year/ carrying amount as at 1 January 2017 HK$'000	% of shareholding interest %	Market/fair value as at 31 December 2017 HK$'000	% to total market/ fair value of the Group's financial asset at FVTPL portfolio %	Unrealised gain (loss) recognised during the year ended 31 December 2017 HK$'000	#Investee company's financial performance	#Future prospects of the investee company
Unlisted convertible securities									
Conglomerate	N+	Printing, trading and logistics, property development and investments, solar photovoltaic and financial services	175,000	N/A	174,418	13.73	(582)	For the six months ended 30 September 2017, revenue from continuing operations increased by 39% to RMB1,885,653,000 and profit for the period from continuing operations increased by 3% to RMB17,466,000 as compared to the same period in 2016.	With the diversified businesses, the investee company aims at strengthening its foundation, diversifying its business portfolio, and growing continuously, both organically and through strategic acquisitions.
Others	O	Wind power generation, power grid construction and wind turbine blades manufcaturing	69,334	N/A	50,334	3.96	(19,000)	For the year ended 31 December 2017, revenue increased by 6% to RMB389,996,000 and its results experienced a turnaround and recorded a profit for the year of RMB24,125,000 as compared to 2016.	The investee company will continue to focus its resources on the development and operation of wind farms and speed up the development of the renewable energy business by way of cooperative development and acquisition and enhance the interaction between other businesses.
			244,334		**224,752**	**17.69**	**(19,582)**		
			1,099,985		**1,270,302**	**100.00**	**170,317**		

\+ In the table above, investee company E, G, J, M and N stands for Get Nice Holdings Limited (stock code: 64), Evergrande Health Industry Group Limited (stock code: 708), The Cross-Harbour (Holdings) Limited (stock code: 32), Emperor International Holdings Limited (stock code: 163) and Huajun Holdings Limited (stock code: 377) respectively.

\# Extracted from published financial information of the investee companies.

* The amount represented the costs of the securities acquired during the year ended 31 December 2017 and/or the carrying amount of the securities brought forward from the prior financial year after accounting for additional acquisition and/or disposal of the securities (if any) during the current financial year.

(ii) Realised gain (loss) on financial assets at FVTPL disposed of during the year ended 31 December 2017

Industry	Abbreviation of investee company	#Principal activities of investee company	*Acquisition costs during the year/carrying amount as at 1 January 2017 *HK$'000*	Sale proceeds of financial assets at FVTPL sold during the year ended 31 December 2017 *HK$'000*	Realised gain (loss) recognsied during the year ended 31 December 2017 *HK$'000*
Equity securities listed in Hong Kong					
Banking	A	Banking business	9,999	10,107	108
			9,999	**10,107**	**108**
Conglomerate	P	Financing guarantee services and consultancy services in the logistic industry in the PRC, trading of furniture and fixtures and interior decoration works in Hong Kong and Macau	18,135	14,823	(3,312)
	Q	Investment and trading of securities, provision of finance, property investment and manufacturing and sales of accessories for photographic products	155,716	82,007	(73,709)
	R	Trading of apparel products and provision of apparel supply chain management services; provision of financial services; money lending business; and securities investment	34,657	20,546	(14,111)
	S	Provision of a wide range of financial services, gaming and hospitality services	886	2,659	1,773
	T	Securities trading and investments and trading of wine	79,471	60,000	(19,471)
			288,865	**180,035**	**(108,830)**

(ii) Realised gain (loss) on financial assets at FVTPL disposed of during the year ended 31 December 2017 (continued)

Industry	Abbreviation of investee company	#Principal activities of investee company	*Acquisition costs during the year/carrying amount as at 1 January 2017 *HK$'000*	Sale proceeds of financial assets at FVTPL sold during the year ended 31 December 2017 *HK$'000*	Realised gain (loss) recognsied during the year ended 31 December 2017 *HK$'000*
Insurance	**U**	Provides financial products and services and is engaged in life insurance, property and casualty insurance, trust, securities, banking and other businesses	10,000	10,492	492
			10,000	**10,492**	**492**
Jewelry, pharmaceutical and health food products retailing	**K**	Designing, sales and retailing of fine jewelry products in Hong Kong & Singapore; sourcing, processing, repackaging & retailing of Chinese pharmaceutical products, dry seafood, health products & foodstuff in Hong Kong, China & Macau	540	2,435	1,895
			540	**2,435**	**1,895**
Property	**V**	Development of residential property in China, primarily focused on the development, sales and management of residential properties	3,540	4,641	1,101
			3,540	**4,641**	**1,101**
Others	**–**	–	47	42	(5)
			47	**42**	**(5)**

(ii) Realised gain (loss) on financial assets at FVTPL disposed of during the year ended 31 December 2017 (continued)

Industry	Abbreviation of investee company	#Principal activities of investee company	*Acquisition costs during the year/carrying amount as at 1 January 2017 *HK$'000*	Sale proceeds of financial assets at FVTPL sold during the year ended 31 December 2017 *HK$'000*	Realised gain (loss) recognsied during the year ended 31 December 2017 *HK$'000*
Unlisted debt securities					
Insurance	W	Provides financial products and services and is engaged in life insurance, property and casualty insurance, trust, securities, banking and other businesses	9,733	10,000	267
			9,733	**10,000**	**267**
			322,724	**217,752**	**(104,972)**

\# Extracted from published financial information of the investee companies.

* The amount represented the costs of the securities acquired during the year ended 31 December 2017 and/or the carrying amount of the securities brought forward from the prior financial year after accounting for additional acquisition and/or disposal of the securities (if any) during the current financial year.

AFS investments

At 31 December 2017, the Group's AFS investment portfolio (constituted by non-current and current portions) of HK$1,323,380,000 was measured at market/fair value. During the year under review, the Group's AFS investment portfolio generated total revenue amounting to HK$67,755,000 (2016: HK$74,082,000) representing dividends from equity securities of HK$1,818,000 (2016: HK$2,131,000) and interest income from debt securities of HK$65,937,000 (2016: HK$71,951,000). According to the maturity of the AFS investments, part of the AFS investment portfolio of HK$62,250,000 was classified as current assets.

Management Discussion and Analysis

During the year under review, the Group invested approximately HK$1,256,299,000 for acquiring debt securities issued by various aircraft leasing company, banking company and property company listed on the Stock Exchange. The Group had increased its investments in debt securities during the year which offer more stable returns. In appropriate circumstances, the Group may also gear up its debt securities investments with bank borrowings in order to enhance their yields.

At the year end, a net fair value gain on the AFS investment portfolio amounting to HK$33,516,000 was recognised as other comprehensive income (2016: loss of HK$8,691,000).

During the year under review, the Group disposed of debt securities amounting to HK$109,352,000 and debt securities of HK$780,000,000 were redeemed by an issuer. A gain on disposal and on redemption totalling HK$8,779,000 was released from the Group's investment revaluation reserve and reclassified as profit in the current year (2016: HK$4,212,000).

At 31 December 2017, the Group invested in debt and equity securities of various aircraft leasing company, banking company and property company and their respective weightings to the market/fair value of the Group's AFS investment portfolio of HK$1,323,380,000 (together with other information) are as below:

Category of companies	Approximate weighting to the market/ fair value of the Group's AFS investment portfolio	% of shareholding interest	Yield to maturity on acquisition date	Acquisition costs	* Acquisition costs during the year/carrying amount as at 1 January 2017	Market/fair value as at 31 December 2017	Accumulated fair value gain (loss) recognised up to 31 December 2017	Fair value gain (loss) recognised during the year ended 31 December 2017
	%	%	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
				A	B	C	D = C – A	E = C – B
Aircraft leasing								
– debt securities	10.93	–	5.09	148,348	148,348	144,692	(3,656)	(3,656)
Banking								
– debt securities	12.19	–	3.73 – 3.91	156,999	156,999	161,312	4,313	4,313
– equity securities	3.35	0.46	N/A	54,599	56,485	44,259	(10,340)	(12,226)
Property								
– debt securities	73.53	–	4.68 – 9.50	931,579	931,579	973,117	41,538	41,538
	100.00			1,291,525	1,293,411	1,323,380	31,855	29,969

* The amount represented the costs of the securities acquired during the year ended 31 December 2017 and/or the carrying amount of the securities brought forward from the prior financial year after accounting for additional acquisition and/or disposal of the securities (if any) during the current financial year.

The yield to maturity on acquisition of debt securities which were held by the Group at the year end ranged from 3.73% to 9.50% per annum.

Management Discussion and Analysis

Trading

The Group's trading business is mainly conducted through China Strategic Metal and Minerals Limited, a wholly owned subsidiary of the Company. During the year under review, the Group's trading operation continued to focusing on trading of metal minerals, metal products and electronic components, and has further expanded its business scope to coke products. The operation recorded a remarkable growth in revenue by over 11.1 times to HK$1,050,406,000 (2016: HK$86,273,000), and a significant increase in profit of over 5.4 times to HK$9,965,000 (2016: HK$1,534,000) compared to the previous year. The significant increases in revenue and profit of the operation were principally due to the increase in volume of metal minerals and coke products transacted during the year, which was in turn resulting from the improvement of sentiments and positive outlook of commodity markets in general, as well as the management's successful efforts in expanding the business scope of the operation.

Money Lending

The Group's money lending business is conducted through CS Credit Limited and U Credit (HK) Limited, both are wholly owned subsidiaries of the Company. The operation continued to record encouraging results by posting a significant growth in revenue of 112% to HK$189,555,000 (2016: HK$89,533,000), and an increase in profit of 112% to HK$186,184,000 (2016: HK$87,971,000) over last year. Such increases were mainly due to the higher average amount of loans advanced to borrowers during the current year and the management's effort in enlarging the operation's clientele base. During the year under review, there was no default in repayments from borrowers and no impairment loss was recognised against loan receivables. The loan portfolio held by the Group amounting to HK$2,058,000,000 at the year end (2016: HK$754,212,000) with details as follows:

Category of borrowers	Approximate weighting to the carrying amount of the Group's loan portfolio %	Interest rate per annum %	Maturity
Individual	48.25	9.50 – 24.00	Within one year
Corporate	51.23	10.00 – 18.00	Within one year
Corporate	0.52	3.00	Over one year but within 3 years
	100.00		

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

Securities Brokerage

The Group's securities brokerage business is conducted through CS Wealth Securities Limited, a wholly owned subsidiary of the Company, licensed by the Hong Kong Securities and Futures Commission to carry out dealing in securities activities. During the year under review, the securities brokerage business achieved a strong increase in revenue of 81% to HK$9,175,000 (2016: HK$5,056,000) and increase in profit of 101% to HK$6,885,000 (2016: HK$3,417,000). The encouraging results registered by the operation are largely due to the management's effort in promoting its business and expanded its business scope to participation of corporate share placing and underwriting exercises.

Overall Results

For the year ended 31 December 2017, the Group recorded profit attributable to owners of the Company of HK$126,193,000 (2016: loss attributable to owners of the Company of HK$436,870,000) and basic earnings per share of HK0.74 cent (2016: loss per share of HK2.57 cents). The Group also recorded total comprehensive income attributable to owners of the Company of HK$150,930,000 (2016: total comprehensive expense attributable to owners of the Company of HK$449,773,000). The profitable results recorded by the Group were mainly due to the profit recognised by the Group's securities investment operation of HK$165,454,000 (2016: loss of HK$549,495,000) coupled with the significant increases in profit generated by the Group's money lending, trading and securities brokerage business amounting to HK$186,184,000 (2016: HK$87,971,000), HK$9,965,000 (2016: HK$1,534,000) and HK$6,885,000 (2016: HK$3,417,000) respectively.

FINANCIAL REVIEW

Liquidity, Financial Resources and Capital Structure

For the year ended 31 December 2017, the Group financed its operation mainly by cash generated from its operations, credit facilities provided by banks, funds raised through issuance of interest bearing notes and shareholders' funds. At the year end, the Group had current assets of HK$3,934,227,000 (2016: HK$3,467,359,000) and liquid assets comprising bank balances and cash as well as financial assets at FVTPL (excluding clients' money held relating to the Group's securities brokerage business and pledged bank deposits) totalling HK$1,618,055,000 (2016: HK$2,698,983,000). The Group's current ratio, calculated based on current assets over current liabilities of HK$2,168,738,000 (2016: HK$171,051,000), was at a ratio of about 1.8 (2016: 20.3). At 31 December 2017, the Group's trade and other receivables amounted to HK$56,632,000 (2016: HK$94,690,000) which mainly comprised trade receivables from cash clients of the securities brokerage business and interest receivables from the Group's securities investments. The Group also had deferred tax liabilities amounting to HK$34,853,000 (2016: HK$5,262,000) that was related to the net unrealised gain on financial assets at FVTPL and AFS investments valued at market/fair value at the year end.

At 31 December 2017, the equity attributable to owners of the Company amounted to HK$3,072,157,000 (2016: HK$2,921,227,000) and was equivalent to an attributable amount of approximately HK18.08 cents (31 December 2016: HK17.20 cents) per share of the Company. The increase in equity attributable to owners of the Company of HK$150,930,000 was mainly a result of the profit and gains recognised by the Group during the year.

At 31 December 2017, the Group's bank borrowings represented bank borrowings raised mainly for acquiring debt securities. The borrowings bore interests at floating rates, secured by certain debt securities and equity securities and were repayable within one year or on demand. In December 2016, the Company issued 2-year notes with aggregate principal amount of HK$1,500,000,000 bearing interest at 7% per annum and 8% per annum for the first and second year respectively. The Group's gearing ratio, calculated on the basis of total liabilities of HK$2,168,738,000 (2016: HK$1,641,970,000) divided by the equity attributable to owners of the Company of HK$3,072,157,000 (2016: HK$2,921,227,000), was of about 71% (2016: 56%). The increase in the Group's gearing ratio was mainly due to the new bank borrowings raised for acquiring debt securities. The Group's finance costs increased to HK$134,890,000 (2016: HK$6,735,000) were primarily a result of the interests incurred on the 2-year notes issued in December 2016 and the new bank borrowings raised during the year.

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

Foreign Currency Management

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

Contingent Liability

At 31 December 2017, the Group had no significant contingent liability (2016: nil).

Pledge of Assets

At 31 December 2017, debt securities of HK$744,281,000 (2016: HK$86,432,000), equity securities of HK$19,349,000 (2016: nil) and bank deposits of HK$30,821,000 (2016: HK$30,531,000) were pledged to banks to secure credit facilities granted.

At 31 December 2016, bill receivables of HK$21,893,000 were pledged to banks by way of floating charge.

Capital Commitment

At 31 December 2017, the Group had no significant capital commitment (2016: nil).

HUMAN RESOURCES AND REMUNERATION POLICY

At 31 December 2017, the Group had 55 (2016: 45) employees including directors of the Company and staff costs (including directors' emoluments) for the current year amounted to HK$38,876,000 (2016: HK$34,233,000). The remuneration packages for directors and staff are normally reviewed annually and are structured by reference to prevailing market terms and individual competence, performance and experience. The Group operates a Mandatory Provident Fund Scheme for employees in Hong Kong. In addition, the Group provides other employee benefits including medical insurance, training subsidy, discretionary bonus and participation in the Company's share option scheme.

Management Discussion and Analysis

PRINCIPAL RISK AND UNCERTAINTIES

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

Business Risk

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

Market Risk

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

Financial Risk

The Group is exposed to financial risks relating to interest rate, securities price, foreign currency, credit and liquidity risk in its ordinary course of business. For further details of such risks and relevant management policies, please refer to Note 35 to the consolidated financial statements for details.

COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS

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

RELATIONSHIP WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group understands the importance of maintaining a good relationship with its employees, customers and suppliers to meet its immediate and long-term business goals. During the year ended 31 December 2017, there were no significant dispute between the Group and its employees, customers and suppliers.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group encourages environmental protection and adopts measures to promote environmental awareness of its employees. The Group implements green office practices by encouraging employees to make use of e-statements or scanning copies, double-sided printing and copying and setting up of recycle boxes for reducing and disposing of waste. The Group also reduces green-house emissions by switching off idle lightings and other office equipments after normal working hours. The Group regularly review its environmental practices for further improvements.

Biographical Details of Directors and Senior Management

The biographical details of Directors and senior management as at 20 April 2018, the latest practicable date before printing of this annual report, are set out below:

NON-EXECUTIVE DIRECTOR

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

Aged 68, joined the Company as an Executive Director and the Chief Executive Officer in November 2009 and was appointed the Chairman of the Board in March 2012. Dr. Or stepped down from his position as Chief Executive Officer in January 2018 and was re-designated as a Non-executive Director on 1 April 2018. Dr. Or is the Chairman of the Nomination Committee and is also a director of certain subsidiaries of the Company. Dr. Or graduated from The University of Hong Kong in 1972 and was conferred an Honorary Doctor of Social Science by the City University of Hong Kong in November 2014. Dr. Or is currently an executive director and the chairman of Esprit Holdings Limited (HKEX stock code: 330). Dr. Or is also an independent non-executive director of Chow Tai Fook Jewellery Group Limited (HKEX stock code: 1929), Industrial and Commercial Bank of China Limited (HKEX stock code: 1398), Regina Miracle International (Holdings) Limited (HKEX stock code: 2199) and Television Broadcasts Limited (HKEX stock code: 511). He was the former vice chairman and chief executive of Hang Seng Bank Limited (HKEX stock code: 11), the former chairman of Hang Seng Life Limited and a director of The Hongkong and Shanghai Banking Corporation Limited, Cathay Pacific Airways Limited (HKEX stock code: 293) and Hutchison Whampoa Limited (HKEX stock code: 13 (delisted)) until his retirement in May 2009. Dr. Or was also the former vice chairman and independent non-executive director of G-Resources Group Limited (HKEX stock code: 1051) and the former deputy chairman and non-executive director of Aquis Entertainment Limited ("Aquis Entertainment") (ASX stock code: AQS) (a company listed on the Australian Securities Exchange Limited). All the aforementioned companies with HKEX stock code are/was listed on the Main Board of the Stock Exchange.

EXECUTIVE DIRECTORS

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

Aged 52, joined the Group in November 2014 and was appointed as an Executive Director in December 2014. He was the Company Secretary until May 2017 and was appointed the Chief Executive Officer in January 2018. Mr. Sue is the Chairman of the Executive Committee and the Investment & Credit Committee. He is also a director of certain subsidiaries of the Company. Mr. Sue holds a Bachelor of Economics degree from The University of Sydney in Australia and a Master of Science in Finance degree from the City University of Hong Kong. Mr. Sue is a fellow of the Hong Kong Institute of Certified Public Accountants, a certified practising accountant of the CPA Australia and a fellow of The Hong Kong Institute of Chartered Secretaries, The Institute of Chartered Secretaries and Administrators and the Hong Kong Securities and Investment Institute. He has extensive experience in corporate management, finance, accounting and company secretarial practice. Mr. Sue is an executive director of EPI (Holdings) Limited (HKEX stock code: 689), PT International Development Corporation Limited (HKEX stock code: 372) and PYI Corporation Limited (HKEX stock code: 498); a non-executive director of Birmingham Sports Holdings Limited ("Birmingham Sports") (HKEX stock code: 2309); and a non-executive director and the chairman of Courage Investment Group Limited ("Courage Investment") (HKEX stock code: 1145). All the aforementioned companies are listed on the Main Board of the Stock Exchange and with Courage Investment is also listed on the Singapore Exchange Securities Trading Limited.

Biographical Details of Directors and Senior Management

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

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

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

Aged 55, joined the Company as an Executive Director in July 2007. Mr. Chow is a member of the Executive Committee and the Investment & Credit Committee. He is also a director of certain subsidiaries of the Company. Mr. Chow holds a master's degree in accountancy from The Hong Kong Polytechnic University. He has over 15 years of managerial experience in finance and accounting. Mr. Chow is a certified practising accountant of the CPA Australia.

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

Aged 54, joined the Company as an Independent Non-executive Director in September 2007. Ms. Ma is the Chairlady of the Audit Committee and a member of the Remuneration Committee and the Nomination Committee. Ms. Ma obtained a bachelor's degree with honours in accounting from Middlesex University in the United Kingdom. She is also awarded the Master of Business Administration and Master in Professional Accounting degree from Heriot-Watt University in the United Kingdom and The Hong Kong Polytechnic University respectively. Ms. Ma is a CPA (Practising) in Hong Kong and has been working in the auditing, accounting and taxation areas with more than 20 years of professional experience. She is the principal of Messrs. Ma Yin Fan & Company CPAs. Ms. Ma is a fellow member of the Hong Kong Institute of Certified Public Accountants, the Institute of Chartered Accountants in the England and Wales, The Taxation Institute of Hong Kong, the Association of Chartered Certified Accountants, The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators. She is also a Certified Tax Advisor in Hong Kong. Ms. Ma is an independent non-executive director of CST Group Limited ("CST Group") (HKEX stock code: 985) and Grand Investment International Ltd. (HKEX stock code: 1160). All the aforementioned companies are listed on the Main Board of the Stock Exchange.

Biographical Details of Directors and Senior Management

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

Aged 71, joined the Company as an Independent Non-executive Director in March 2011. Mr. Chow is the Chairman of the Remuneration Committee and a member of the Audit Committee. Mr. Chow is a Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants. He has over 35 years of experience in commercial, financial and investment management in Hong Kong and Mainland China. Mr. Chow is an independent non-executive director of Playmates Toys Limited (HKEX stock code: 869), Symphony Holdings Limited (HKEX stock code: 1223) and Top Form International Limited (HKEX stock code: 333). All the aforementioned companies are listed on the Main Board of the Stock Exchange. Mr. Chow is also an independent non-executive director of Aquis Entertainment.

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

Aged 67, joined the Company as an Independent Non-executive Director in September 2007. Mr. Leung is a member of the Audit Committee, the Remuneration Committee and the Nomination Committee. Mr. Leung graduated from Guangdong Foreign Trade School in the PRC. He has over 15 years of experience in the trading business and business development. Mr. Leung is an independent non-executive director of CST Group.

SENIOR MANAGEMENT

Ms. Chan Yuk Yee ("Ms. Chan"), *Company Secretary*

Aged 50, joined the Company as the Company Secretary in May 2017. Ms. Chan holds a Master of Business Law degree from Monash University in Australia and is an associate of both The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators. She has extensive experience in corporate administration and company secretarial practice. Ms. Chan is an executive director and the company secretary of Birmingham Sports and an executive director of Sustainable Forest Holdings Limited (HKEX stock code: 723). All the aforementioned companies are listed on the Main Board of the Stock Exchange.

Report of the Directors

The Directors are pleased to present their report and the audited consolidated financial statements of the Group for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

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

Further discussion and analysis of the Group's activities as required by Schedule 5 to the Hong Kong Companies Ordinance, including a discussion of the principal risks and uncertainties facing the Group, particulars of important events affecting the Group that have occurred since the end of the financial year and an indication of likely future developments in the Group's business, can be found in the "Chairman's Statement" and "Management Discussion and Analysis" sections set out on pages 4 to 22 of this annual report. This discussion forms part of this directors' report.

RESULTS

The results of the Group for the year ended 31 December 2017 are set out in the consolidated statement of profit or loss and other comprehensive income on page 55.

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2017 (2016: nil) and intends to retain the profit earned for the year for future business development of the Group.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the published results and assets and liabilities of the Group for the last five financial years, as extracted from the audited consolidated financial statements of the Company, is set out on page 124. This summary does not form part of the audited consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

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

DONATIONS

There is no charitable donation made by the Group during the year ended 31 December 2017.

SHARE CAPITAL

Details of movements in the Company's share capital during the year are set out in Note 31 to the consolidated financial statements.

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

During the year ended 31 December 2017, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

DISTRIBUTABLE RESERVE

As at 31 December 2017, the Company had no reserve available for distribution to shareholders.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, revenue from the Group's five largest customers accounted for approximately 68% of the revenue for the year and revenue from the largest customer accounted for approximately 41%. Purchases from the Group's five largest suppliers accounted for approximately 72% of the total purchases for the year and purchases from the largest supplier accounted for approximately 28%.

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

DIRECTORS

The directors of the Company during the year and up to 20 March 2018, the date of this report were:

Dr. Or Ching Fai
Mr. Sue Ka Lok
Ms. Lee Chun Yeung, Catherine
Mr. Chow Kam Wah
Ms. Ma Yin Fan
Mr. Chow Yu Chun, Alexander
Mr. Leung Hoi Ying

In accordance with Article 116 of the Company's Articles of Association, Ms. Lee Chun Yeung, Catherine, Mr. Chow Yu Chun, Alexander and Mr. Leung Hoi Ying will retire at the forthcoming annual general meeting of the Company (the "2018 AGM") by rotation and, being eligible, will offer themselves for re-election in the 2018 AGM.

DIRECTORS OF SUBSIDIARIES

During the year and up to 20 March 2018, the date of this report, Dr. Or Ching Fai, Mr. Sue Ka Lok, Ms. Lee Chun Yeung, Catherine and Mr. Chow Kam Wah are also directors in certain subsidiaries of the Company. Other directors of the subsidiaries of the Company during the year and up to the date of this report include Mr. Hui Richard Rui, Mr. Zhu Kai and Mr. Leung Wing Shing.

PERMITTED INDEMNITY PROVISION

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

DIRECTORS' SERVICE CONTRACTS

None of the directors being proposed for re-election at the 2018 AGM has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REMUNERATION

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

UPDATES ON DIRECTORS' INFORMATION

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

1. Dr. Or Ching Fai resigned as a deputy chairman and a non-executive director of Aquis Entertainment Limited (ASX stock code: AQS) on 31 December 2017.

2. Mr. Sue Ka Lok stepped down from his position as the chairman and has been redesignated as a non-executive director of Courage Investment Group Limited ("Courage Investment") (HKEX stock code: 1145) on 19 October 2017; has been re-appointed as the chairman of Courage Investment on 28 February 2018; resigned as a non-executive director of Tianli Holdings Group Limited (HKEX stock code: 117) on 17 January 2018; and stepped down from his position as the chief executive officer of EPI (Holdings) Limited (HKEX stock code: 689) on 17 January 2018.

UPDATES ON DIRECTORS' INFORMATION (continued)

3. The director's remuneration of Mr. Sue Ka Lok has been increased to HK$1,950,000 per annum under his service contract with a subsidiary of the Company with effect from 18 January 2018. The revised remuneration was recommended by the Remuneration Committee of the Company and approved by the Board.

4. The director's remuneration of Ms. Lee Chun Yeung, Catherine has been increased to HK$1,105,000 per annum under her service contract with a subsidiary of the Company with effect from 1 February 2018. The revised remuneration was recommended by the Remuneration Committee of the Company and approved by the Board.

5. The director's remuneration of Mr. Chow Kam Wah has been increased to HK$1,196,000 per annum under his service contract with the Company with effect from 1 February 2018. The revised remuneration was recommended by the Remuneration Committee of the Company and approved by the Board.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

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

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

As at 31 December 2017, none of the directors or chief executive of the Company had registered an interest or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) that was required to be recorded pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the "Share option scheme" disclosure in Note 33 to the consolidated financial statements, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the directors of the Company or their spouse or minor children had any rights to subscribe for the securities of the Company, or had exercised any such rights during the year.

SHARE OPTION SCHEME

Details of the share option scheme of the Company are set out in Note 33 to the consolidated financial statements.

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

As at 31 December 2017, the following interests of more than 5% of the issued shares of the Company were recorded in the register of interests required to be kept by the Company pursuant to section 336 of the SFO.

Long positions in the shares of the Company:

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

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

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

Save as disclosed above, the Company had not been notified of any other relevant interests or short positions in the shares and underlying shares of the Company as at 31 December 2017 as required pursuant to section 336 of the SFO.

CONNECTED TRANSACTIONS

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

REMUNERATION POLICY

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

EQUITY-LINKED AGREEMENTS

Save for the share option scheme of the Company as disclosed in Note 33 to the consolidated financial statements, no equity-linked agreements were entered into by the Group, or existed during the year.

MANAGEMENT CONTRACTS

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

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the directors, at least 25% of the Company's total issued shares is held by the public as at 20 March 2018, the date of this report.

AUDIT COMMITTEE

The audited consolidated financial statements of the Company for the year ended 31 December 2017 have been reviewed by the Audit Committee and duly approved by the Board under the recommendation of the Audit Committee.

AUDITOR

The consolidated financial statements of the Company for the year ended 31 December 2017 have been audited by Deloitte Touche Tohmatsu.

A resolution will be proposed at the 2018 AGM to re-appoint Deloitte Touche Tohmatsu as the auditor of the Company.

On behalf of the Board

Dr. Or Ching Fai
Chairman

Hong Kong, 20 March 2018

Corporate Governance Report

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

CORPORATE GOVERNANCE

The Company has complied with all the applicable provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 of the Listing Rules for the year ended 31 December 2017, except for the following deviation with reason as explained:

Chairman and chief executive

Code Provision A.2.1

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

Deviation

The Company had deviated from the requirement during the year ended 31 December 2017. The Board believed that vesting the roles of chairman and chief executive officer in the same person provided the Company with strong and consistent leadership in the development and execution of long-term business strategy.

Nevertheless, the roles of the chairman and chief executive are separated following the step down of Dr. Or Ching Fai from his position as Chief Executive Officer and the appointment of Mr. Sue Ka Lok, an Executive Director of the Company, as the Chief Executive Officer on 18 January 2018. The aforesaid deviation was rectified and Code Provision A.2.1 has been complied with commencing from 18 January 2018.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code as its own code of conduct regarding securities transactions by directors of the Company. Having made specific enquiry with the directors, all of them confirmed that they have complied with the required standards set out in the Model Code during the year ended 31 December 2017.

BOARD OF DIRECTORS

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

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

As at 20 April 2018, the latest practicable date before printing of this annual report, the Board comprises seven directors, one is Non-executive Director, Dr. Or Ching Fai ("Dr. Or"), the Chairman of the Company (the "Chairman"), three of which are Executive Directors, namely Mr. Sue Ka Lok, the Chief Executive Officer of the Company (the "CEO"), Ms. Lee Chun Yeung, Catherine and Mr. Chow Kam Wah, and three are Independent Non-executive Directors, namely Ms. Ma Yin Fan ("Ms. Ma"), Mr. Chow Yu Chun, Alexander ("Mr. Chow") and Mr. Leung Hoi Ying ("Mr. Leung"). The directors are considered to have a balance of skill and experience appropriate for the requirements of the business of the Company. The Company has received from each of the independent non-executive directors an annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all the independent non-executive directors are independent in accordance with the independence guidelines set out in the Listing Rules. Biographical details of the directors are set out under the section headed "Biographical Details of Directors and Senior Management" on pages 23 to 25 of this annual report.

Dr. Or was the vice-chairman and an independent non-executive director of Aquis Entertainment Limited (ASX stock code: AQS) until 31 December 2017 of which Mr. Chow is an independent non-executive director. Both Ms. Ma and Mr. Leung is an independent non-executive director of CST Group Limited (HKEX stock code: 985). Save for the aforesaid, there is no other financial, business, family or other material/relevant relationship between the Chairman and the CEO and among members of the Board.

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

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

Corporate Governance Report

BOARD OF DIRECTORS (continued)

During the year ended 31 December 2017, four regular Board meetings and annual general meeting of the Company (the "2017 AGM") were held and the attendance of each director is set out as follows:

	Number of attendance	
	Board Meetings	**2017 AGM**
Non-executive Director		
Dr. Or Ching Fai	4/4	1/1
Executive Directors		
Mr. Sue Ka Lok	4/4	1/1
Ms. Lee Chun Yeung, Catherine	4/4	1/1
Mr. Chow Kam Wah	4/4	1/1
Independent Non-executive Directors		
Ms. Ma Yin Fan	4/4	1/1
Mr. Chow Yu Chun, Alexander	4/4	1/1
Mr. Leung Hoi Ying	4/4	1/1

CHAIRMAN AND CHIEF EXECUTIVE

Code Provision A.2.1 of the CG Code requires the roles of the chairman and chief executive should be separate and should not be performed by the same individual. The Company had deviated from the requirement during the year ended 31 December 2017 as Dr. Or Ching Fai acted as Executive Director, Chairman and Chief Executive Officer of the Company. Although this arrangement constituted a deviation from the CG Code, the Board considered that the management structure of the Company, where the leadership of the Board was distinct from the executive responsibilities for running of the business operations, would not impair the balance of power and authority between the Board and the management of the business, the Board further believed that vesting the roles of chairman and chief executive officer in the same person provided the Company with strong and consistent leadership in the development and execution of long-term business strategy.

Nevertheless, the roles of the chairman and chief executive are separated following the step down of Dr. Or Ching Fai from his position as Chief Executive Officer and the appointment of Mr. Sue Ka Lok, an Executive Director of the Company, as the Chief Executive Officer on 18 January 2018. The aforesaid deviation was rectified and Code Provision A.2.1 has been complied with commencing from 18 January 2018.

TERM OF APPOINTMENT OF NON-EXECUTIVE DIRECTORS

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

REMUNERATION COMMITTEE

The Remuneration Committee has specific written terms of reference that is in compliance with the CG Code. As at 20 April 2018, the latest practicable date before printing of this annual report, the Remuneration Committee comprises three Independent Non-executive Directors, namely Ms. Ma Yin Fan, Mr. Chow Yu Chun, Alexander and Mr. Leung Hoi Ying. Mr. Chow Yu Chun, Alexander is the Chairman of the Remuneration Committee.

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

The Remuneration Committee met one time during the year ended 31 December 2017 to review and make recommendations to the Board on the discretionary bonus for executive directors and remuneration packages for directors. The attendance of each member is set out as follows:

Members	Number of attendance
Mr. Chow Yu Chun, Alexander	1/1
Ms. Ma Yin Fan	1/1
Mr. Leung Hoi Ying	1/1

NOMINATION COMMITTEE

The Nomination Committee has specific written terms of reference that is in compliance with the CG Code. As at 20 April 2018, the latest practicable date before printing of this annual report, the Nomination Committee comprises three members, including one Non-executive Director, namely Dr. Or Ching Fai, and two Independent Non-executive Directors, namely Ms. Ma Yin Fan and Mr. Leung Hoi Ying. Dr. Or Ching Fai is the Chairman of the Nomination Committee.

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

Corporate Governance Report

NOMINATION COMMITTEE (continued)

The Nomination Committee met one time during the year ended 31 December 2017 to review the board diversity policy of the Company (the "Board Diversity Policy"), review the structure, size and composition of the Board; and review and make recommendation to the Board on the re-election of directors. The attendance of each member is set out as follows:

Members	Number of attendance
Dr. Or Ching Fai	1/1
Ms. Ma Yin Fan	1/1
Mr. Leung Hoi Ying	1/1

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

The Nomination Committee had reviewed the diversity of the Board of the Company during the year ended 31 December 2017 and will review the Board Diversity Policy from time to time to ensure that the policy will be implemented effectively.

AUDITOR AND AUDITOR'S REMUNERATION

The statement of the external auditor of the Company about their responsibilities on the Company's consolidated financial statements for the year ended 31 December 2017 is set out in the "Independent Auditor's Report" on pages 49 to 54 of this annual report.

For the year ended 31 December 2017, remuneration payable to the Company's auditor, Deloitte Touche Tohmatsu, for the provision of audit services was HK$1,600,000. During the year, HK$257,000 was paid as remuneration to Deloitte Touche Tohmatsu for performing a review on the Company's condensed consolidated financial statements for the six months ended 30 June 2017.

AUDIT COMMITTEE

The Audit Committee has specific written terms of reference that is in compliance with the CG Code. As at 20 April 2018, the latest practicable date before printing of this annual report, the Audit Committee comprises three Independent Non-executive Directors, namely Ms. Ma Yin Fan, Mr. Chow Yu Chun, Alexander and Mr. Leung Hoi Ying, who among themselves possess a wealth of management experience in the accounting profession and in commercial fields. Ms. Ma Yin Fan is the Chairlady of the Audit Committee.

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

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

The Audit Committee met two times during the year ended 31 December 2017 and the attendance of each member is set out as follows:

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

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

1. reviewed and discussed the audited consolidated financial statements of the Company for the year ended 31 December 2016 and recommended to the Board for approval;

2. reviewed and discussed the unaudited condensed consolidated financial statements of the Company for the six months ended 30 June 2017 and recommended to the Board for approval;

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

4. reviewed reports from the auditor of the Company regarding their audit on the Company's consolidated financial statements for the year ended 31 December 2016 and their review on the Company's condensed consolidated financial statements for the six months ended 30 June 2017;

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

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

Corporate Governance Report

EXECUTIVE COMMITTEE

The Executive Committee has been established since 31 March 2016. As at 20 April 2018, the latest practicable date before printing of this annual report, the Executive Committee comprises three Executive Directors, namely Mr. Sue Ka Lok, Ms. Lee Chun Yeung, Catherine and Mr. Chow Kam Wah. Mr. Sue Ka Lok is the Chairman of the Executive Committee. The Executive Committee is mainly responsible for overseeing the management and the administrative functions of the day-to-day operations of the Group and handling such other matters as delegated by the Board from time to time. The full terms of reference are available on the Company's website and the Stock Exchange's website. The Executive Committee will meet as and when necessary to discuss the operating affairs of the Group.

INVESTMENT AND CREDIT COMMITTEE

The Investment & Credit Committee has been established since 31 March 2016. As at 20 April 2018, the latest practicable date before printing of this annual report, the Investment & Credit Committee comprises two Executive Directors, namely Mr. Sue Ka Lok and Mr. Chow Kam Wah. Mr. Sue Ka Lok is the Chairman of the Investment & Credit Committee. The Investment & Credit Committee is mainly responsible for overseeing and monitoring the activities of the securities investment operation and the money lending operation of the Group and handling such other matters relating to securities investments and money lending as delegated by the Board from time to time. The full terms of reference are available on the Company's website and the Stock Exchange's website. The Investment & Credit Committee will meet as and when necessary to discuss the activities of the securities investments and money lending of the Group.

DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Board is responsible for presenting a balanced, clear and understandable assessment of the Company's annual and interim reports, price-sensitive announcements and other financial disclosures required under the Listing Rules and other regulatory requirements.

The directors acknowledge their responsibility for preparing the consolidated financial statements of the Company for the year ended 31 December 2017.

CORPORATE GOVERNANCE FUNCTIONS

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

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

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

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

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

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

RISK MANAGEMENT AND INTERNAL CONTROL

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

Due to the size of the Group and consideration for cost effectiveness, the Company has engaged an independent professional firm to conduct a review on the risk management and internal control systems to identify and evaluate significant risks of the Group's business operations. The Board believes that the involvement of an independent professional firm could enhance the objectivity and transparency of the evaluation process. For the year ended 31 December 2017, the Board has conducted an annual review of the effectiveness of the risk management and internal control systems of the Group by, including but not limited to, considering an internal control assessment report and a risk management advisory report prepared by the independent professional firm to the Audit Committee.

RISK MANAGEMENT AND INTERNAL CONTROL (continued)

The independent professional firm has performed an internal control assessment of elements of financial procedures, systems and internal controls in the Group's selected operations, in order to identify significant findings in the relevant internal controls of the Group. During the review, they have conducted collaborative interviews, document inspection, and subsequently identified certain findings based on their results of testing and developed relevant recommendations and suggestions for improvement. The independent professional firm has also performed a follow-up assessment on the findings as identified in the Internal Control Assessment Report dated 20 March 2018 to assess the remediation status.

For the risk management perspective, the independent professional firm has also performed an assessment on the Group's financial, operation, compliance and strategic aspects and identified certain risk areas. A risk management advisory report with the identified key risks and risk evaluation results have been presented to the Board. The Board will implement appropriate measures to continue to minimize the identified risks and control them within acceptable levels. In order to manage risks effectively, the management will continue to monitor the identified risks and the respective control measures, and arrange adequate resources for the effective control measures undertaken.

The Board has also considered the adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting and financial reporting function during the year under review. The Board is not aware of any significant internal control and risk management weaknesses or inconsistencies with risk management policies, and considers the existing internal control and risk management systems effective and adequate for the year ended 31 December 2017. The Company has complied with the relevant code provisions of the CG Code relating to risk management and internal control.

HANDLING AND DISSEMINATION OF INSIDE INFORMATION

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

COMPANY SECRETARY

Following the resignation of Mr. Sue Ka Lok as the Company Secretary, Ms. Chan Yuk Yee ("Ms. Chan") has been appointed as the Company Secretary with effect from 2 May 2017. The biographical details of Ms. Chan are set out under the section headed "Biographical Details of Directors and Senior Management" on pages 23 to 25 of this annual report. Ms. Chan has taken no less than 15 hours of the relevant professional training during the year ended 31 December 2017.

SHAREHOLDER RIGHTS AND INVESTOR RELATIONS

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

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

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

A printed copy of the Memorandum and Articles of Association of the Company has been published on the websites of the Company and the Stock Exchange. There had been no changes in the Company's constitutional documents during the year ended 31 December 2017.

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

Environmental, Social and Governance Report

The Board is pleased to present the Environmental, Social and Governance (the "ESG") report of China Strategic Holdings Limited (hereinafter referred to as the "Company" or "we" or "our"), which summarized our ESG initiatives and accomplishments for the year ended 31 December 2017.

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

This report serves to provide details of the Company's ESG policies and initiatives of its business in investment in securities, trading, money lending and securities brokerage, which has been prepared in accordance with the ESG Reporting Guide (the "ESG Guide") as set out in Appendix 27 of the Listing Rules. With regard to corporate governance aspect, please refer to the Corporate Governance Report on pages 32 to 41. During the year ended 31 December 2017, the Company has complied with the "comply or explain" provisions as set out in the ESG Guide. The source of data in preparing the ESG report is primarily based on our internal policies and documents as well as information provided by various key stakeholders.

STAKEHOLDERS' ENGAGEMENT

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

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

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

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

ENVIRONMENTAL

With the growing concern for global climate changes, we believe that acknowledging our carbon footprints is our basic responsibility owed to the public. As a financial institution operates in an office setting, our major environment impact are the greenhouse gas emission generated by office electricity and fuel consumption of our cars and vessels. Therefore, our operation initiatives is to reduce the emission of carbon dioxide generated by our business activities.

Emissions and energy consumption

Our vision focuses on eliminating excessive usage of resources. We continuously look for ways to reduce energy consumption in order to minimize the impact to the environment resulted from emissions. During the year, we directly consumed 35,636 Carbon Dioxide Equivalent (CO_2e) tonnes of greenhouse gas emission. The Nitrogen Oxides (NOx), Particulate Matter (PM) and Sulphur Oxides (SOx) emitted by our cars and vessels accounted for 2,613g, 192g and 150g respectively. Our cars and vessels usage are mainly attributed to our business travels and activities with our customers.

Scope 1 – Direct Emission	Gasoline Consumption (in liter)	Carbon Dioxide Equivalent Emission (in tonne)
Company's cars	10,207	27,638
Company's vessels	2,677	7,998
Total	12,884	35,636
Total energy intensity (per full-time employee)	234	648

Environmental, Social and Governance Report

Scope 2 – Indirect Emission	Electricity Consumption (in kWh)	Carbon Dioxide Equivalent Emission (in tonne)
Total acquired electricity	62,921	49,708
Total energy intensity (per full-time employee)	1,144	904

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

Water consumption

We do not face any water supply problem as it is provided by municipal to the office building. On the other hand, we order our drinking water from external supplier monthly and hence no electricity is generated associated with water consumption. During the year, we have consumed a total of 3,594 liters of water.

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

Waste reduction

As a service company instead of manufacturing with production, our operations do not generate any hazardous waste. We also are not aware of any non-compliance with relevant laws and regulations during the reporting period. Instead, the majority of non-hazardous waste we produced are paper and our daily garbage. During the year, we used a total of 243 reams, 0.6 tonnes of paper. In addition to our energy conservation practices, we have put in measures to encourage our staff in reducing waste production, such as minimize producing wastes by recycling plastic bottles, paper and ink cartridges, encourage double-sided printing, advocating “green office” concepts in the office by encouraging staff to think before using paper, reduce the production of non-hazardous solid wastes or unrecyclable materials.

SOCIAL

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

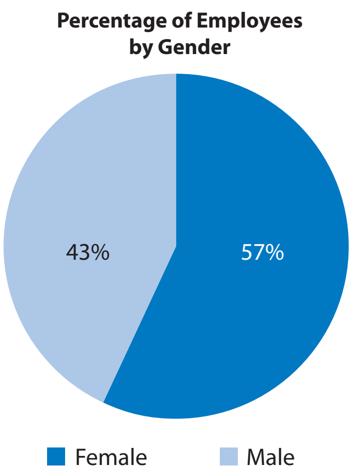
Employment and labour practices

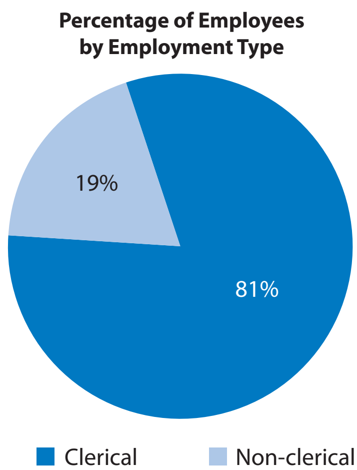
Employment

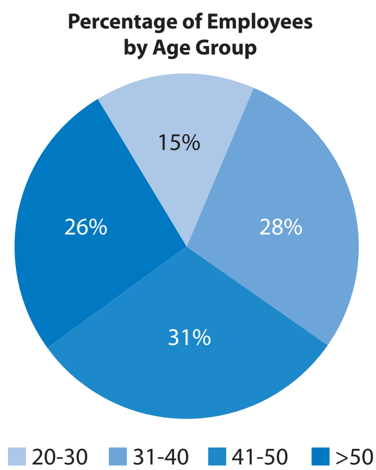
Our employees are our biggest asset and we value and reward them accordingly. We provide an inclusive environment for our employees to work with, embracing new ideas and always looking for changes to strive for a better and efficient business. We place great respect to our employees from different cultures.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

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

Workforce







Working hours, promotion, termination, compensation and other benefits

As at 31 December 2017, we had a total of 55 employees located in Hong Kong. Termination of employees was arranged in accordance with the Employment Ordinance (Chapter 57 of the Laws of Hong Kong) (the "Employment Ordinance") and other requirements. During the year, only 2 males left the Company. The turnover rate is relatively low.

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

Environmental, Social and Governance Report

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

Health and safety

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

In terms of daily operations, we put up posters/leaflets in the office area to raise the awareness of office or personal safety, such as proper postures to be maintained and exercise for using computer for long hours. During the reporting period, one case of injury was reported. In case of injuries/incidents incurred, that would be properly recorded and investigated to prevent from future occurrence. We have established Business Continuity Plan for macro events such as fire, electrical failure or flood and water damage to specify steps to be taken during these emergencies. We possess insurance policy that is in compliance with the Employment Ordinance and at common law for injuries at work for every employee. The insurance has extended to cover against loss of or damage to the office contents, business interruption, money, and public liability within the office premises.

Development and training

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

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

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

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

Labour standards

We value human rights. Child or forced labour is strictly prohibited in accordance with the applicable laws and regulations. We conduct thorough background checks and reference checks during our hiring process to prevent this from happening. During 2017, we have complied with the Employment Ordinance and no person under 18 was employed in respect of child or forced labour. We also support human rights consistent with the United Nations Declaration of Human Rights and will consider carefully before trading with, or investing in, countries which are governed by regimes that do not adhere to the United Nations Declaration.

Operating practices

Supply chain management

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

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

Product responsibility

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

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

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

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

Environmental, Social and Governance Report

Anti-corruption

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

Community

Community involvement

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

Independent Auditor's Report

Deloitte. 德勤

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

OPINION

We have audited the consolidated financial statements of China Strategic Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 55 to 123, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

KEY AUDIT MATTERS (continued)

Key audit matter

Fair value on financial instruments in respect of unlisted convertible securities

We identified fair value of financial instruments in respect of unlisted convertible securities as a key audit matter due to judgement was exercised in selecting an appropriate valuation technique and assumptions and estimates were used to determine the fair value of unlisted convertible securities without quoted price in an active market.

As discussed in Notes 25 and 35, the fair value of unlisted convertible securities are HK$224,751,000 as at 31 December 2017.

The fair value of the above unlisted convertible securities were estimated by the management based on the binomial option pricing model with associated assumptions and with the key inputs of the model, namely risk free rate, expected volatility, dividend yield and discount rate being obtained by referencing to listed bonds with similar rating. The Group had engaged an independent professional valuer to perform such valuation.

How our audit addressed the key audit matter

Our procedures in relation to fair value on financial instruments included:

- Obtaining an understanding of the entity's valuation process in selecting valuation model/techniques and adopting assumptions and estimates;
- Evaluating the independent external valuer's competence, capabilities and objectivity;
- Engaging our internal valuation expert to evaluate the appropriateness of the valuation model adopted and checking its mathematical accuracy;
- Evaluating the appropriateness of the key assumptions in the binomial option pricing model, including risk free rate, expected volatility, dividend yield and discount rate; and
- Evaluating the sufficiency of the relevant disclosures of the financial instruments in the financial statements.

KEY AUDIT MATTERS (continued)

Key audit matter

Impairment assessment on loan receivables

We identified the impairment assessment on loan receivables as a key audit matter due to management judgement was required in making an assessment of the adequacy of the impairment provision for loan receivables rising from the money lending business.

As detailed in Note 22 to the consolidated financial statements, the Group's loan receivables as at 31 December 2017 amounted to HK$2,058,000,000.

In determining the impairment provision of loan receivables, the recoverability of the loan receivables was assessed by the management taking into account the credit quality and likelihood of collection.

How our audit addressed the key audit matter

Our procedures in relation to management's impairment assessment of loan receivables included:

- Understanding and testing the entity's key controls on the assessment of the borrowers' creditability, collaterals and guarantees provided and borrowers' financial capacity for the repayment provided before granting the loans;
- Understanding and testing the entity's key control on monitoring the recoverability, including the credit quality and likelihood of collection on an individual basis as well as on collective basis, including the Group's past experience of collecting payment of the loan receivables after granting the loans;
- Evaluating the management's process for reviewing the collectability of loan receivables by reference to the credit quality, likelihood of collection and the settlement record;
- Tracing a sample of the settlements during the year to bank receipts; and
- Tracing a sample of the post year end subsequent settlements to bank receipts.

OTHER INFORMATION

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Independent Auditor's Report

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

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

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

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong, 20 March 2018

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
Revenue	5	**1,337,246**	270,706
Purchases and related expenses		**(1,040,580)**	(85,076)
Other income	7	**8,582**	3,184
Other gain (loss)	8	**643**	(47)
Staff costs		**(38,876)**	(34,233)
Other expenses		**(28,064)**	(34,398)
Net gain (loss) on financial assets at fair value through profit or loss	9	**65,345**	(635,753)
Gain on disposal of available-for-sale investments		**979**	4,212
Gain on redemption of available-for-sale investments		**7,800**	–
Finance costs	10	**(134,890)**	(6,735)
Profit (loss) before tax		**178,185**	(518,140)
Income tax (expense) credit	11	**(51,992)**	81,270
Profit (loss) for the year attributable to owners of the Company	12	**126,193**	(436,870)
Other comprehensive income (expense)			
Items that may be reclassified subsequently to profit or loss:			
Net fair value gain (loss) on available-for-sale investments		**33,516**	(8,691)
Released on disposal of available-for-sale investments		**(979)**	(4,212)
Released on redemption of available-for-sale investments		**(7,800)**	–
Other comprehensive income (expense) for the year		**24,737**	(12,903)
Total comprehensive income (expense) for the year attributable to owners of the Company		**150,930**	(449,773)
Earnings (loss) per share attributable to owners of the Company			
– Basic	16	**HK0.74 cent**	HK(2.57) cents

Consolidated Statement of Financial Position

At 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
Non-current assets			
Property, plant and equipment	17	**26,236**	29,324
Prepaid lease payments	18	**2,570**	2,669
Goodwill	19	**4,000**	4,000
Club debentures	20	**1,928**	1,928
Available-for-sale investments	21	**1,261,130**	922,917
Loan receivables	22	**10,804**	135,000
Total non-current assets		**1,306,668**	1,095,838
Current assets			
Inventories	23	**6,641**	19,559
Prepaid lease payments	18	**99**	99
Available-for-sale investments	21	**62,250**	–
Loan receivables	22	**2,047,196**	619,212
Trade and other receivables	24	**56,632**	94,690
Income tax recoverable		**2,587**	–
Financial assets at fair value through profit or loss	25	**1,270,302**	744,407
Pledged bank deposits	26	**30,821**	30,531
Bank balances and cash	26	**457,699**	1,958,861
Total current assets		**3,934,227**	3,467,359
Current liabilities			
Trade and other payables	27	**191,711**	54,137
Income tax payable		**19,250**	23,575
Deferred tax liabilities	28	**34,853**	5,262
Bank borrowings	29	**430,756**	88,077
Notes payable	30	**1,492,168**	–
Total current liabilities		**2,168,738**	171,051
Net current assets		**1,765,489**	3,296,308
Total assets less current liabilities		**3,072,157**	4,392,146
Non-current liability			
Notes payable	30	**–**	1,470,919
Net assets		**3,072,157**	2,921,227

Consolidated Statement of Financial Position

At 31 December 2017

	Note	2017 HK$'000	2016 HK$'000
Capital and reserves			
Share capital	31	**3,012,877**	3,012,877
Reserves		**59,280**	(91,650)
Total equity		**3,072,157**	2,921,227

The consolidated financial statements on pages 55 to 123 were approved and authorised for issue by the Board of Directors on 20 March 2018 and are signed on its behalf by:

Dr. Or Ching Fai
Director

Sue Ka Lok
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2017

	Share capital *HK$'000*	Investment revaluation reserve *HK$'000*	Retained profits (accumulated losses) *HK$'000*	Total *HK$'000*
At 1 January 2016	3,012,877	20,021	338,102	3,371,000
Loss for the year	–	–	(436,870)	(436,870)
Net fair value loss on available-for-sale investments	–	(8,691)	–	(8,691)
Released on disposal of available-for-sale investments	–	(4,212)	–	(4,212)
Total comprehensive expense for the year	–	(12,903)	(436,870)	(449,773)
At 31 December 2016	3,012,877	7,118	(98,768)	2,921,227
Profit for the year	**–**	**–**	**126,193**	**126,193**
Net fair value gain on available-for-sale investments	**–**	**33,516**	**–**	**33,516**
Released on disposal of available-for-sale investments	**–**	**(979)**	**–**	**(979)**
Released on redemption of available-for-sale investments	**–**	**(7,800)**	**–**	**(7,800)**
Total comprehensive income for the year	**–**	**24,737**	**126,193**	**150,930**
At 31 December 2017	**3,012,877**	**31,855**	**27,425**	**3,072,157**

Consolidated Statement of Cash Flows

For the year ended 31 December 2017

	Note	2017 HK$'000	2016 HK$'000
Operating activities			
Profit (loss) for the year		**126,193**	(436,870)
Adjustments for:			
Finance costs		**134,890**	6,735
Interest income		**(4,026)**	(1,320)
Amortisation of prepaid lease payments		**99**	99
Depreciation of property, plant and equipment		**3,277**	1,752
Gain on disposal of available-for-sale investments		**(979)**	(4,212)
Gain on redemption of available-for-sale investments		**(7,800)**	–
Net unrealised (gain) loss on financial assets at fair value through profit or loss		**(170,317)**	152,083
Income tax expense (credit)		**51,992**	(81,270)
Operating cash flows before movements in working capital		**133,329**	(363,003)
Decrease (increase) in inventories		**12,918**	(19,559)
Decrease in trade and other receivables		**38,058**	25,434
Increase in loan receivables		**(1,303,788)**	(274,113)
(Increase) decrease in financial assets at fair value through profit or loss		**(355,578)**	817,342
Increase in trade and other payables		**136,658**	34,448
Increase in bank balances – client accounts		**(105,661)**	(4,003)
Cash (used in) from operations		**(1,444,064)**	216,546
Income tax paid		**(29,313)**	(2,140)
Net cash (used in) from operating activities		**(1,473,377)**	214,406
Investing activities			
Purchase of available-for-sale investments		**(1,256,299)**	(206,000)
Proceeds from disposal of available-for-sale investments		**109,352**	121,212
Proceeds from redemption of available-for-sale investments		**780,000**	–
Interest received		**4,026**	1,320
(Placement) withdrawal of pledged bank deposits		**(290)**	24,889
Purchase of property, plant and equipment		**(189)**	(20,777)
Net cash outflow from acquisition of a subsidiary	36	**–**	(6,867)
Purchase of club debenture		**–**	(1,300)
Net cash used in investing activities		**(363,400)**	(87,523)

Consolidated Statement of Cash Flows

For the year ended 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
Financing activities			
New bank borrowings raised		**629,223**	159,784
Repayments of bank borrowings		**(286,544)**	(194,721)
Interest paid		**(112,725)**	(1,213)
Net proceeds from issue of notes	*30*	**–**	1,470,000
Advances drawn on bill receivables discounted with full recourse	*24*	**–**	21,893
Net cash from financing activities		**229,954**	1,455,743
Net (decrease) increase in cash and cash equivalents		**(1,606,823)**	1,582,626
Cash and cash equivalents at the beginning of the year		**1,954,576**	371,950
Cash and cash equivalents at the end of the year		**347,753**	1,954,576
Represented by:			
Bank balances and cash			
– general accounts and cash	*26*	**347,753**	1,954,576

1. GENERAL AND BASIS OF PRESENTATION

China Strategic Holdings Limited is a public limited liability company incorporated in Hong Kong and its shares are listed on the Stock Exchange. The registered office of the Company is disclosed in the Corporate Information of this annual report.

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

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

Basis of presentation

In the opinion of the Directors, the consolidated financial statements changes the presentation of its consolidated statement of profit or loss and other comprehensive income for the year as the changed presentation provides information that is more relevant and presents the nature of costs incurred to users of the financial statements.

Certain comparative figures in the consolidated financial statements have been reclassified to conform with the current year's presentation of the Group under consolidated statement of profit or loss and other comprehensive income:

(i) Reclassification of administrative expenses to staff costs and other expenses; and

(ii) Reclassification of cost of sales and selling and distribution costs to purchases and related expenses

Except those mentioned above, there were no other reclassifications made to the comparative figures of the Group.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

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

Amendments to HKAS 7	Disclosure initiative
Amendments to HKAS 12	Recognition of deferred tax assets for unrealised losses
Amendments to HKFRS 12	As part of the annual improvements to HKFRSs 2014 – 2016 cycle

Except as described below, the application of the 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.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

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

Amendments to HKAS 7 Disclosure initiative

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

A reconciliation between the opening and closing balances of these items is provided in Note 42. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in Note 42, the application of these amendments has had no impact on the Group's consolidated financial statements.

New and revised to HKFRSs in issue but not yet effective

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

HKFRS 9	Financial instruments[1]
HKFRS 15	Revenue from contracts with customers and the related amendments[1]
HKFRS 16	Leases[2]
HKFRS 17	Insurance contracts[4]
HK(IFRIC) – Int 22	Foreign currency transactions and advance consideration[1]
HK(IFRIC) – Int 23	Uncertainty over income tax treatments[2]
Amendments to HKFRS 2	Classification and measurement of share-based payment transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 Financial instruments with HKFRS 4 insurance contracts[1]
Amendments to HKFRS 9	Prepayment features with negative compensation[2]
Amendments to HKFRS 10 and HKAS 28	Sale or contribution of assets between an investor and its associate or joint venture[3]
Amendments to HKAS 28	As part of the annual improvements to HKFRSs 2014 – 2016 cycle[1]
Amendments to HKAS 28	Long-term interests in associates and joint ventures[2]
Amendments to HKAS 40	Transfers of investment property[1]
Amendments to HKFRSs	Annual improvements to HKFRSs 2015 – 2017 cycle[2]

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

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

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

[2] Effective for annual periods beginning on or after 1 January 2019.

[3] Effective for annual periods beginning on or after a date to be determined.

[4] Effective for annual periods beginning on or after 1 January 2021.

HKFRS 9 Financial instruments

HKFRS 9 introduced new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of HKFRS 9 which are relevant to the Group are:

- All recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income ("FVTOCI"). All other financial assets are measured at their fair value at subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

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

HKFRS 9 Financial instruments (continued)

Based on the Group's financial instruments and risk management policies as at 31 December 2017, the Directors anticipate the following potential impact on initial application of HKFRS 9:

Classification and measurement:

- Debt instruments classified as loan receivables carried at amortised cost as disclosed in Note 22: these are held within a business model whose objective is to collect the contractual cash flows that are solely payments of principal and interest on the principal outstanding. Accordingly, the financial assets will continue to be subsequently measured at amortised cost upon the application of HKFRS 9;

- Listed debt instruments classified as available-for-sale investments carried at fair value as disclosed in Note 21: these are held within a business model whose objective is achieved both by collecting contractual cash flows and selling the listed debt instruments in the open market, and the contractual terms give rise to cash flows on specified dates that are solely payments of principal and interest on the principal outstanding. Accordingly, the listed debt instruments will continue to be subsequently measured at FVTOCI upon the application of HKFRS 9, and the fair value loss accumulated in the investment revaluation reserve will continue to be subsequently reclassified to profit or loss when the listed debt instruments are derecognised or reclassified (except in the case of reclassifications to the amortised cost measurement category in which case the accumulated gains or losses are removed from equity and adjusted against the fair value of the financial asset at reclassification date);

- Listed equity securities classified as available-for-sale investments carried at fair value as disclosed in Note 21: these securities qualified for designation as measured at FVTOCI under HKFRS 9, however, the Group plans not to elect the option for the designation and will measure these securities at fair value with subsequent fair value gains or losses to be recognised in profit or loss. Upon initial application of HKFRS 9, the fair value loss accumulated in the investments revaluation reserve of HK$10,340,000 related to these available-for-sale investments will be transferred to retained profits at 1 January 2018; and

- All other financial assets and financial liabilities will continue to be measured on the same bases as are currently measured under HKAS 39.

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

HKFRS 9 Financial instruments (continued)

Impairment

In general, the Directors anticipate that the application of the expected credit loss model of HKFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised costs and other items that subject to the impairment provisions upon application of HKFRS 9 by the Group.

Based on the assessment by the Directors, if the expected credit loss model were to be applied by the Group, the accumulated amount of impairment loss to be recognised by Group as at 1 January 2018 would not be significantly different as compared to the accumulated amount recognised under HKAS 39. It is also expected that the adoption of HKFRS 9 in the future may not have other significant impact on amounts reported in respect of the Group's financial assets and financial liabilities based on the Group's existing business model.

HKFRS 15 Revenue from contracts with customers

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 "Revenue", HKAS 11 "Construction contracts" and the related interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, the HKICPA issued Clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

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

HKFRS 15 Revenue from contracts with customers (continued)

Currently, the gross amount of sales from trading of metal minerals, metal and coke products is recognised as revenue on the basis that the Group is acting as a principal under HKAS 18 and the directors of the Company have commenced to assess the effects on the application of HKFRS 15 on the revenue from trading of metal minerals, metal and coke products. Under the requirement of HKFRS 15, should the trading activities of metal minerals, metal and coke products carried by the Group be regarded as agent services, the net amount of the sales and corresponding cost of sales would be recognised as revenue.

The adoption of HKFRS 15 is mandatory for financial years commencing on or after 1 January 2018. The Group intends to adopt this using the limited retrospective method with cumulative effect of initial application recognised in opening balance of equity at 1 January 2018.

In addition, the application of HKFRS 15 in the future may result in more disclosures in the consolidated financial statements.

HKFRS 16 Leases

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

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

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

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

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

HKFRS 16 Leases (continued)

In contrast to lessee accounting, 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 2017, the Group has non-cancellable operating lease commitments of HK$28,507,000 as disclosed in Note 37. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

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

Furthermore, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above.

The Directors anticipate that the application of other new and amendments to HKFRSs and Interpretations will have no material impact on the consolidated financial statements of the Group in the future.

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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.

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Business combinations

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations (continued)

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

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

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

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

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

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations (continued)

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

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

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

Basis of consolidation

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

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

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

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

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

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

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

Goodwill

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

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

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

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal (or any of the cash-generating unit within group of cash-generating units in which the Group monitors goodwill).

Revenue recognition

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Sale of goods

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

Service income

Service income is recognised when services are provided.

Dividend and interest income

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

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

Arrangement fee income

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

Commission and handling income

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

Underwriting fee income

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment

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

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

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

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

Leasing

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

The Group as lessee

Operating lease payments, including the cost of acquiring the land held under operating leases, are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Leasehold land and building

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leasing (continued)

Leasehold land and building (continued)

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

Foreign currencies

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

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

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

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in a joint arrangement or an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

Borrowing costs

Borrowing costs are recognised in profit or loss in the period in which they are incurred.

Retirement benefit costs

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Short-term employee benefits

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

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

Inventories

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

Taxation

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

Current tax

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

Deferred tax

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

Deferred tax (continued)

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

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

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

Current and deferred tax for the year

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

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

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

Financial assets

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Effective interest method

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

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

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is, (i) held for trading or (ii) it is designated as at FVTPL.

A financial asset is classified as held for trading if:

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

A financial asset other than a financial asset held for trading or contingent consideration that may be received by an acquirer as part of a business combination may be designated as at FVTPL upon initial recognition if:

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Financial assets at FVTPL (continued)

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets and is included in the "net gain on financial assets at fair value through profit or loss". Fair value is determined in the manner described in Note 35.

AFS financial assets

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

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

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

Loans and receivables

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets

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

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

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

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

For certain categories of financial assets, such as trade and other receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio and observable changes in national or local economic conditions that correlate with default on receivables.

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

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

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

Financial liabilities and equity instruments

Classification as debt or equity

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

Equity instruments

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

Financial liabilities

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

Effective interest method

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

Interest expense is recognised on an effective interest basis.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Derecognition

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

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

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

Impairment on tangible assets other than goodwill

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment on tangible assets other than goodwill (continued)

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

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

Equity-settled share-based payment transactions

Share options granted to employees and directors

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

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

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

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Key sources of estimation uncertainty

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

Fair value of financial assets and valuation process

As described in Note 35c, the Directors use their judgement in selecting an appropriate valuation technique for financial assets not quoted in an active market. The fair value of the unlisted convertible securities is estimated based on the binomial option pricing model with the key inputs of the model, namely risk free rate, expected volatility, dividend yield and discount rate being obtained by referencing to listed bonds with similar rating. The carrying amount of unlisted debt securities and convertible securities as at 31 December 2017 are nil (2016: HK$780,000,000) and HK$224,751,000 (2016: HK$69,334,000) respectively. The directors believe that the chosen valuation techniques and assumptions are appropriate in determining the fair value of financial assets.

Impairment loss on trade receivables

The policy of determining allowance for bad or doubtful debts of the Group is based on the evaluation of collectability of amounts due based on management's estimate. In determining whether impairment loss is required, the Group takes into consideration the likelihood of collection of debts on an individual basis as well as on a collective basis, including the Group's past experience of collecting payments. Specific allowance is only made for receivables that are unlikely to be collected and is recognised on the difference between the estimated future cash flow expected to be received discounted using the original interest rate and the carrying value. As at 31 December 2017, the carrying amount of trade receivables net of allowance for doubtful debts is HK$18,958,000 (2016: HK$22,586,000).

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4. KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Impairment loss on loan receivables

Management regularly reviews the recoverability of the loan receivables. Appropriate impairment loss for estimated irrecoverable amount is recognised in profit or loss when there is objective evidence that the amount is not recoverable.

In determining whether allowance for bad and doubtful debts is required, the Group takes into consideration the aged status and likelihood of collection. Specific allowance is only made for the loan receivables that are unlikely to be collected and is recognised on the difference between the carrying amount of loan receivables and the present value of estimated future cash flow discounted using the original effective interest rate. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2017, the carrying amount of loan receivables is HK$2,058,000,000 (2016: HK$754,212,000).

5. REVENUE

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

	2017	2016
	HK$'000	*HK$'000*
Trading of metal minerals, metal and coke products	**1,020,044**	85,288
Sales of electronic components	**30,362**	985
Dividend income from securities and AFS investments	**14,349**	15,146
Interest income from securities and AFS investments	**73,761**	74,698
Interest income from money lending business	**181,052**	86,548
Arrangement fee income from money lending business	**8,503**	2,985
Commission and handling income from securities brokerage business	**6,308**	3,245
Underwriting fee income from securities brokerage business	**2,867**	1,811
	1,337,246	270,706

6. SEGMENT INFORMATION

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

6. SEGMENT INFORMATION (continued)

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

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

Segment revenue and results

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

For the year ended 31 December 2017

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

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6. SEGMENT INFORMATION (continued)

Segment revenue and results (continued)

For the year ended 31 December 2016

	Investment in securities HK$'000	Trading HK$'000	Money lending HK$'000	Securities brokerage HK$'000	Total HK$'000
Segment revenue					
External sales/sources	89,844	86,273	89,533	5,056	270,706
Results					
Segment results	(549,495)	1,534	87,971	3,417	(456,573)
Other income					589
Central administrative expenses					(55,421)
Finance costs					(6,735)
Loss before tax					(518,140)
Income tax credit					81,270
Loss for the year					(436,870)
Other segment information					
Amortisation of prepaid lease payments	99	–	–	–	99
Depreciation of property, plant and equipment	1,499	4	240	9	1,752
Net loss on financial assets at FVTPL	(635,753)	–	–	–	(635,753)
Gain on disposal of AFS investments	4,212	–	–	–	4,212

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

6. SEGMENT INFORMATION (continued)

Segment assets and liabilities

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

	2017	2016
	HK$'000	*HK$'000*
Segment assets		
Investment in securities	**2,709,999**	2,491,717
Trading	**112,024**	808,753
Money lending	**2,133,891**	757,938
Securities brokerage	**230,829**	78,597
Total segment assets	**5,186,743**	4,137,005
Property, plant and equipment	**26,236**	29,324
Prepaid lease payments	**2,669**	2,768
Bank balances and cash	**17,256**	384,095
Other unallocated assets	**7,991**	10,005
Consolidated assets	**5,240,895**	4,563,197
Segment liabilities		
Investment in securities	**473,388**	78,945
Trading	**15,068**	39,166
Money lending	**12,880**	9,608
Securities brokerage	**161,825**	24,119
Total segment liabilities	**663,161**	151,838
Other payables	**13,409**	11,975
Income tax payable	**–**	7,238
Notes payable	**1,492,168**	1,470,919
Consolidated liabilities	**2,168,738**	1,641,970

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

- all assets are allocated to operating segments other than property, plant and equipment, prepaid lease payments, certain bank balances and cash and certain other assets; and
- all liabilities are allocated to operating segments other than certain other payables, certain income tax payable and notes payable.

6. SEGMENT INFORMATION (continued)

Revenue from major products and services

The Group's revenue is arising from investment in securities, trading, money lending and securities brokerage businesses.

Geographical information

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

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

	Revenue from external customers Year ended 31 December		Non-current assets *(Note)* As at 31 December	
	2017	2016	**2017**	2016
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Hong Kong	**917,186**	184,433	**27,174**	30,194
The PRC	**229,383**	61,879	**3,560**	3,727
South America	**69,714**	24,394	**–**	–
Europe	**120,963**	–	**–**	–
	1,337,246	270,706	**30,734**	33,921

Note: Non-current assets excluded AFS investments, goodwill and loan receivables.

Information about major customers

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

	For the year ended 31 December	
	2017	2016
	HK$'000	*HK$'000*
Customer A	**139,290**	27,417
Customer B	**543,524**	–[1]

1 No revenue generated from the customer in the prior year.

7. OTHER INCOME

	2017 HK$'000	2016 HK$'000
Bank interest income	4,026	1,320
Commission income from trading	–	917
Commission income from investment in securities	4,368	–
Others	188	947
	8,582	3,184

8. OTHER GAIN (LOSS)

	2017 HK$'000	2016 HK$'000
Exchange gain (loss), net	643	(47)

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

	2017 HK$'000	2016 HK$'000
Net unrealised gain (loss) on financial assets at FVTPL	170,317	(152,083)
Net realised loss on sales of financial assets at FVTPL	(104,972)	(483,670)
	65,345	(635,753)

10. FINANCE COSTS

	2017 HK$'000	2016 HK$'000
Interest on advances drawn on bill receivables discounted with full recourse *(Note 24)*	1,137	652
Interest on bank borrowings	6,847	561
Interest on notes payable *(Note 30)*	126,906	5,522
	134,890	6,735

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11. INCOME TAX EXPENSE (CREDIT)

	2017	2016
	HK$'000	*HK$'000*
Tax charge (credit) comprises:		
Current tax		
– Hong Kong Profits Tax	**22,055**	12,600
Under(over)provision in prior years		
– Hong Kong Profits Tax	**346**	(132)
	22,401	12,468
Deferred tax *(Note)*	**29,591**	(93,738)
Income tax expense (credit) recognised in profit or loss	**51,992**	(81,270)

Note: Deferred tax arising from the temporary difference related to net unrealised gain on financial assets at FVTPL and AFS investments.

Hong Kong Profits Tax was calculated at 16.5% of the estimated assessable profit for both years.

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

	2017	2016
	HK$'000	*HK$'000*
Profit (loss) before tax	**178,185**	(518,140)
Tax at the domestic income tax rate of 16.5%	**29,401**	(85,493)
Tax effect of expenses not deductible for tax purpose	**557**	326
Tax effect of income not taxable for tax purpose	**(24,217)**	(28,541)
Under(over)provision in prior years	**346**	(132)
Tax effect of tax loss not recognised	**46,786**	32,980
Utilisation of tax losses previously not recognised	**(881)**	(410)
Income tax expense (credit) for the year	**51,992**	(81,270)

12. PROFIT (LOSS) FOR THE YEAR

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

	2017	2016
	HK$'000	*HK$'000*
Staff costs		
– directors' emoluments *(Note 13)*	**22,328**	20,885
– other staff salaries, wages and other benefits	**15,853**	12,704
– retirement benefit scheme contributions, excluding directors	**695**	644
Total staff costs	**38,876**	34,233
Auditor's remuneration	**1,659**	1,481
Amortisation of prepaid lease payments	**99**	99
Depreciation of property, plant and equipment	**3,277**	1,752
Cost of inventories recognised as expenses	**1,014,786**	81,054

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13. DIRECTORS' AND CHIEF EXECUTIVE OFFICER'S EMOLUMENTS

The emoluments paid or payable to each of the seven (2016: eight) directors, disclosed pursuant to the applicable Listing Rules and Hong Kong Companies Ordinance, were as follows:

	2017					2016				
	Fee	**Salaries and other benefits**	**Retirement benefit scheme contributions**	**Discretionary bonus**	**Total**	Fee	Salaries and other benefits	Retirement benefit scheme contributions	Discretionary bonus	Total
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Executive directors										
– Dr. Or Ching Fai	**–**	**11,650**	**–**	**4,500**	**16,150**	–	11,000	–	4,500	15,500
– Mr. Sue Ka Lok	**–**	**1,590**	**80**	**1,000**	**2,670**	–	1,550	127	700	2,377
– Ms. Lee Chun Yeung, Catherine	**–**	**1,058**	**53**	**350**	**1,461**	–	1,038	54	30	1,122
– Mr. Chow Kam Wah	**–**	**1,129**	**18**	**350**	**1,497**	–	1,100	18	245	1,363
– Mr. Hui Richard Rui *(Note)*	**–**	**–**	**–**	**–**	**–**	–	120	3	–	123
	–	**15,427**	**151**	**6,200**	**21,778**	–	14,808	202	5,475	20,485
Independent non-executive directors										
– Ms. Ma Yin Fan	**200**	**–**	**–**	**–**	**200**	150	–	–	–	150
– Mr. Chow Yu Chun, Alexander	**200**	**–**	**–**	**–**	**200**	150	–	–	–	150
– Mr. Leung Hoi Ying	**150**	**–**	**–**	**–**	**150**	100	–	–	–	100
	550	**–**	**–**	**–**	**550**	400	–	–	–	400
Total	**550**	**15,427**	**151**	**6,200**	**22,328**	400	14,808	202	5,475	20,885

Note: Resigned on 1 March 2016

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

During the year ended 31 December 2017, Dr. Or Ching Fai served as the Chairman and the Chief Executive Officer of the Company and his emoluments disclosed above include those for services rendered by him as the Chairman and the Chief Executive Officer during the year.

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

On 18 January 2018, Dr. Or Ching Fai has stepped down from his position as Chief Executive Officer of the Company and will remain as an Executive Director, the Chairman of the Board and the Chairman of the Nomination Committee, the Executive Committee and the Investment & Credit Committee of the Company and Mr. Sue Ka Lok has been appointed as the Chief Executive Officer of the Company.

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

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

14. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, four (2016: four) of them were executive directors of the Company whose emoluments are included in Note 13 above. The emolument of the remaining one (2016: one) individual was as follows:

	2017	2016
	HK$'000	*HK$'000*
Salaries and other benefits	**1,040**	1,040
Retirement benefit scheme contributions	**52**	52
	1,092	1,092

The emolument was within the following band:

	Number of individuals	
	2017	2016
HK$1,000,001 – HK$1,500,000	**1**	1

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15. DIVIDENDS

No dividend was paid or proposed for the years ended 31 December 2017 and 2016, nor has any dividend been proposed since the end of the reporting periods.

16. EARNINGS (LOSS) PER SHARE

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

	2017	2016
	HK$'000	*HK$'000*
Earnings (loss):		
Profit (loss) for the year attributable to owners of the Company for the purpose of calculating basic earnings (loss) per share	**126,193**	(436,870)

	2017	2016
	'000	*'000*
Number of shares:		
Weighted average number of ordinary shares for the purpose of calculating basic earnings (loss) per share	**16,987,714**	16,987,714

Diluted earnings (loss) per share for the years ended 31 December 2017 and 2016 are not presented as there were no dilutive potential ordinary shares in issue during both years.

17. PROPERTY, PLANT AND EQUIPMENT

	Buildings *HK$'000*	Furniture and fixtures *HK$'000*	Machinery and equipment *HK$'000*	Motor vehicles *HK$'000*	Vessels *HK$'000*	Total *HK$'000*
Cost						
At 1 January 2016	2,125	4,055	253	3,258	–	9,691
Acquired on acquisition of subsidiary	–	19	–	–	–	19
Additions	–	194	78	–	25,698	25,970
At 31 December 2016	2,125	4,268	331	3,258	25,698	35,680
Additions	–	3	111	–	75	189
At 31 December 2017	**2,125**	**4,271**	**442**	**3,258**	**25,773**	**35,869**
Accumulated depreciation						
At 1 January 2016	999	3,094	99	412	–	4,604
Provided for the year	68	180	27	407	1,070	1,752
At 31 December 2016	1,067	3,274	126	819	1,070	6,356
Provided for the year	68	181	51	407	2,570	3,277
At 31 December 2017	**1,135**	**3,455**	**177**	**1,226**	**3,640**	**9,633**
Carrying values						
At 31 December 2017	**990**	**816**	**265**	**2,032**	**22,133**	**26,236**
At 31 December 2016	1,058	994	205	2,439	24,628	29,324

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

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

At 31 December 2017 and 2016, the buildings of the Group are situated on land in the PRC.

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18. PREPAID LEASE PAYMENTS

	2017 HK$'000	2016 HK$'000
Analysed as:		
Current asset	**99**	99
Non-current asset	**2,570**	2,669
	2,669	2,768

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

19. GOODWILL

For the purpose of impairment testing, goodwill, as set out in Note 36, is allocated to the securities brokerage business, being one of the Group's cash generating units identified according to segment information.

The recoverable amount of the securities brokerage business was based on its value in use and was determined by the management of the Group. The calculation uses cash flow projections based on financial budgets approved by management covering a five-year period, and at discount rate of 13.56% (2016: 14.26%). Cash flows after the five-year period were assumed to have no growth.

The key assumption for the value in use calculation includes profit forecast. Such estimation is based on the historical performance and management's expectation of the development of the Group's securities brokerage business under the current market conditions. Management believes that any reasonably possible change in the assumption would not cause the aggregate carrying amount of the cash generating unit exceeds the aggregate recoverable amount of it. Therefore no impairment on goodwill was made for the year ended 31 December 2017.

20. CLUB DEBENTURES

The club debentures represent the club membership of three (2016: three) private clubs in Hong Kong. The directors are of opinion that it is not necessary to make any impairment on the club debentures since the quoted prices are higher than their carrying values.

21. AVAILABLE-FOR-SALE INVESTMENTS

	2017 HK$'000	2016 HK$'000
Unlisted investments, at fair value:		
– Debt securities *(Note (i))*	–	827,250
Listed investments, at fair value:		
– Equity securities listed in Hong Kong	44,259	56,485
– Debt securities listed in Hong Kong or overseas with fixed interests ranging from 3.9% to 9.5% (2016: 3.9%) per annum and maturity dates ranging from 12 June 2018 to 23 January 2027 (2016: 25 May 2026) *(Note (ii))*	1,279,121	39,182
	1,323,380	922,917
Analysed as:		
Current portion	62,250	–
Non-current portion	1,261,130	922,917
	1,323,380	922,917

Notes:

(i) During the year ended 31 December 2016, the Group invested HK$50,000,000 to subscribe at par bonds issued by an insurance company listed in Hong Kong. During the year ended 31 December 2017, the Group disposed of the debt securities with cumulative loss of HK$500,000 previously accumulated in the investment revaluation reserve, the cumulative loss was subsequently reclassified to profit or loss accordingly.

As at 31 December 2016, the Group also invested in a 9% perpetual securities in the aggregate principal amount of US$100,000,000 (equivalent to approximately HK$780,000,000) issued by a property company listed in Hong Kong, which were classified as unlisted debt securities. During the year ended 31 December 2017, the debt securities were redeemed with cumulative gain of approximately HK$7,800,000 previously accumulated in the investment revaluation reserve, the cumulative gain was subsequently reclassified to profit or loss accordingly.

(ii) During the year ended 31 December 2017, the Group invested approximately US$161,100,000 (equivalent to approximately HK$1,256,299,000) for acquiring bonds issued by companies listed in Hong Kong and subsequently divested part of the investments in the amount of US$7,500,000 (equivalent to approximately HK$58,373,000) with cumulative gain of approximately HK$1,479,000 previously accumulated in the investment revaluation reserve, the cumulative gain was subsequently reclassified to profit or loss accordingly.

21. AVAILABLE-FOR-SALE INVESTMENTS (continued)

At the end of the reporting period, AFS investments are stated at fair values. The listed equity securities and listed debt securities were determined based on the quoted market closing price available on the Stock Exchange or other recognised stock exchanges, whereas the fair values of unlisted debt securities were determined based on future cash flows discounted using a rate based on the market interest rate and the risk premium specific to the unlisted debt securities/quoted market price in the over-the-counter market.

As at 31 December 2017, debt securities of approximately HK$744,281,000 (2016: HK$86,432,000) were pledged as security for credit facility granted to the Group.

22. LOAN RECEIVABLES

	2017	2016
	HK$'000	*HK$'000*
Fixed-rate loan receivables	**2,058,000**	754,212
Analysed as:		
Current portion	**2,047,196**	619,212
Non-current portion	**10,804**	135,000
	2,058,000	754,212
Analysed as:		
Secured	**1,930,743**	702,125
Unsecured	**127,257**	52,087
	2,058,000	754,212

As at 31 December 2017, the range of interest rates and maturity dates attributed to the Group's loan receivables was 3% to 24% (2016: 8% to 24%) per annum and from 19 January 2018 to 27 October 2020 (2016: 24 February 2017 to 25 January 2018) respectively.

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

22. LOAN RECEIVABLES (continued)

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

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

The loan receivables of the total carrying amount of approximately HK$2,058,000,000 (2016: HK$754,212,000) were neither past due nor impaired at the reporting date. The Group considered the secured loans of approximately HK$1,930,743,000 are recoverable given the fair values of the properties and securities pledged are sufficient to cover the entire loan receivables, as for the unsecured loans of approximately HK$127,257,000, the Group considered the amounts are recoverable as the loans were borrowed by borrowers with good credit history.

As at 31 December 2017 and 2016, the Group's loan receivables were individually assessed for impairment and no impairment loss was identified.

The Group had concentration of credit risk as 56% (2016: 66%) of the total loan receivables as at 31 December 2017 was due from five (2016: three) borrowers. The balances due from these five (2016: three) borrowers was in an aggregate amount of approximately HK$1,151,026,000 (2016: HK$495,152,000) as at 31 December 2017, which were neither past due nor impaired, and were fully secured by properties and securities pledged with aggregate fair values of approximately HK$1,369,232,000 (2016: HK$1,158,500,000).

No aged analysis of loan receivables is disclosed, as in the opinion of the directors of the Company, the aged analysis does not give additional value in view of the nature of money lending business.

23. INVENTORIES

	2017	2016
	HK$'000	*HK$'000*
Electronic components	**6,641**	19,559

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24. TRADE AND OTHER RECEIVABLES

	2017	2016
	HK$'000	*HK$'000*
Trade receivables of securities brokerage business:		
– Cash clients	**16,942**	168
– Hong Kong Securities Clearing Company Limited ("HKSCC")	**–**	21,810
Trade receivables of trading business	**2,016**	608
Bill receivables discounted with full recourse *(Note 29)*	**–**	21,893
Interest receivables	**24,295**	35,308
Other receivables	**13,379**	14,903
	56,632	94,690

For securities brokerage business, the normal settlement terms of trade receivables from cash clients and HKSCC are two days after trade date. The trade receivables from cash clients with a carrying amount of approximately HK$16,942,000 (2016: HK$168,000) were neither past due nor impaired at the end of the reporting period.

For trading business, the Group normally allows credit period for trade customers ranging from 30 to 180 days (2016: 30 to 180 days). The following is an aged analysis of trade and bill receivables, net of allowance for doubtful debts, presented based on the invoice dates, which approximated the respective revenue recognition dates, at the end of the reporting period:

	2017	2016
	HK$'000	*HK$'000*
0 – 180 days	**2,016**	21,893
Over 180 days	**–**	608
	2,016	22,501

Before accepting any new customer, the Group assesses the potential customer's credit quality and defines its credit limit. Credit sales are made to customers with appropriate credit history. Credit limits attributed to customers are reviewed regularly.

At the end of the reporting periods, the trade and bill receivables were neither past due nor impaired and were related to customers of good credit quality.

24. TRADE AND OTHER RECEIVABLES (continued)

Bill receivables discounted with full recourse

As at 31 December 2016, the amounts represented bill receivables discounted to bank with full recourse with a maturity period of less than 180 days. The Group recognised the full amount of the discount proceeds as liabilities as set out in Note 29.

The following were the Group's financial assets as at 31 December 2017 and 2016 that were transferred to bank by discounting those receivables on a full recourse basis. As the Group had not transferred the significant risks and rewards relating to these receivables, it continued to recognise the full carrying amount of the receivables and had recognised the cash received on the transfer as a secured borrowing. These financial assets were carried at amortised cost in the Group's consolidated statement of financial position.

	2017	2016
	HK$'000	*HK$'000*
Carrying amount of transferred assets	**–**	21,893
Carrying amount of associated liabilities	**–**	(21,893)
Net position	**–**	–

Interest receivables of approximately HK$24,295,000 (2016: HK$35,308,000) due from bond issuers and banks were neither past due non impaired at the end of reporting period. The management considers that the credit risk is limited because the counterparties are banks and bond issuers of good reputation.

Included in other receivables were unrestricted deposits of approximately HK$5,158,000 (2016: HK$4,198,000) placed with securities brokers in relation to securities brokerage activities. The remaining balance of other receivables represented mainly dividends receivable, prepayment, deposits for office use and tax reserve certificate purchased.

The amounts of the Group's trade and other receivables denominated in currencies other than functional currencies of the Group are set out below:

	2017	2016
	HK$'000	*HK$'000*
US$	**2,016**	22,501

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25. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2017	2016
	HK$'000	*HK$'000*
Unlisted investments at fair value:		
– Debt securities *(Note (i))*	**–**	9,733
– Convertible securities with fixed interests ranging from 8% to 10% (2016: 8%) per annum and maturity dates ranging from 26 October 2018 to 15 June 2019 (2016: 15 December 2017) *(Note (ii))*	**224,751**	69,334
Listed investments at fair value:		
– Equity securities listed in Hong Kong *(Note (iii))*	**1,045,551**	665,340
	1,270,302	744,407

Notes:

(i) The fair value of the unlisted debt securities was determined based on the quoted market price in the over-the-counter market.

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

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

As at 31 December 2017, equity securities of approximately HK$19,349,000 (2016: nil) were pledged as security for credit facility granted to the Group.

26. BANK BALANCES AND CASH/PLEDGED BANK DEPOSITS

	2017	2016
	HK$'000	*HK$'000*
Bank balances and cash:		
– General accounts and cash *(Note (i))*	**347,753**	1,954,576
– Client accounts *(Note (ii))*	**109,946**	4,285
	457,699	1,958,861

Notes:

(i) The accounts comprise cash and short-term bank deposits with an original maturity of three months or less held by the Group. The amounts carried interest ranging from 0.01% to 1.50% (2016: 0.01% to 1.19%) per annum.

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

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

	2017	2016
	HK$'000	*HK$'000*
RMB	**432**	394
US$	**197,612**	46,102

Pledged bank deposits represented deposits pledged to banks to secure the banking facilities granted to the Group. As at 31 December 2017, deposit amounting to HK$27,740,000 (2016: HK$27,451,000) was pledged to a bank to comply with the minimum deposit requirement for the issuance of letters of credit and deposit amounting to HK$3,081,000 (2016: HK$3,080,000) was pledged to another bank to secure the credit facility for settlement of the securities brokerage activities. The pledged bank deposits will be released upon settlement of the relevant letters of credit and termination of the credit facility in relation to settlement of the securities brokerage activities and are therefore classified as current assets.

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27. TRADE AND OTHER PAYABLES

	2017 HK$'000	2016 HK$'000
Trade payables of securities brokerage business:		
– Cash clients	**155,801**	24,033
– HKSCC	**5,799**	–
Trade payables of trading business	**9,277**	3,898
Accrued charges and other payables	**15,315**	21,603
Interest payables	**5,519**	4,603
	191,711	54,137

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

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

	2017 HK$'000	2016 HK$'000
0 - 180 days	**4,640**	3,898
Over 180 days	**4,637**	–
	9,277	3,898

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

28. DEFERRED TAX LIABILITIES

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

	Temporary difference related to unrealised net gain on financial assets at FVTPL and AFS investments
	HK$'000
At 1 January 2016	99,000
Credited to the profit or loss *(Note 11)*	(93,738)
At 31 December 2016	5,262
Charged to the profit or loss *(Note 11)*	29,591
At 31 December 2017	**34,853**

As at 31 December 2017, the Group had unused tax losses arising in Hong Kong of approximately HK$705,254,000 (2016: HK$427,037,000), subject to agreement of the Hong Kong Inland Revenue Department, the unused tax losses are available indefinitely for offset against future profits of the companies in which the losses arose. No deferred tax asset had been recognised in respect of the unused tax losses due to the unpredictability of future profit streams. The tax losses may be carried forward indefinitely.

29. BANK BORROWINGS

	2017	2016
	HK$'000	*HK$'000*
Advances drawn on bill receivables discounted with full recourse *(Note (i))*	**–**	21,893
Short-term secured bank borrowings *(Note (ii))*	**430,756**	66,184
	430,756	88,077

Notes:

(i) The amount represented the Group's borrowings secured by the bill receivables discounted to bank with full recourse (Note 24), and the amount was repayable within one year.

(ii) The amount carried interest at London Interbank Offered Rate ("LIBOR") + 0.8% per annum and was repayable within one year. The loan agreement of secured bank borrowing contains a repayment on demand clause.

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For the year ended 31 December 2017

30. NOTES PAYABLE

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

	2017	2016
	HK$'000	*HK$'000*
At the beginning of the year	**1,470,919**	–
Issue of notes payable	**–**	1,470,000
Effective interest charged *(Note 10)*	**126,906**	5,522
Interest paid/payable	**(105,657)**	(4,603)
At the end of the year	**1,492,168**	1,470,919
Analysed as:		
Current portion	**1,492,168**	–
Non-current portion	**–**	1,470,919
	1,492,168	1,470,919

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

31. SHARE CAPITAL OF THE COMPANY

	Number of shares	**Share capital**
	'000	***HK$'000***
Issued and fully paid ordinary shares:		
At 1 January 2016, 31 December 2016, 1 January 2017 and **31 December 2017**	**16,987,714**	**3,012,877**

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32. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	2017 HK$'000	2016 HK$'000
Non-current assets		
Property, plant and equipment	1,776	1,939
Prepaid lease payments	2,570	2,669
Investments in subsidiaries	–	–
Club debentures	475	475
Total non-current assets	4,821	5,083
Current assets		
Prepaid lease payments	99	99
Amounts due from subsidiaries	4,561,118	3,994,441
Income tax recoverable	2,587	–
Other receivables, deposits and prepayments	1,077	5,868
Bank balances and cash	13,779	382,537
Total current assets	4,578,660	4,382,945
Current liabilities		
Accrued charges and other payables	10,862	10,483
Amounts due to subsidiaries	354,854	191,549
Income tax payable	–	7,238
Notes payable	1,492,168	–
Total current liabilities	1,857,884	209,270
Net current assets	2,720,776	4,173,675
Total assets less current liabilities	2,725,597	4,178,758
Non-current liability		
Notes payable	–	1,470,919
Net assets	2,725,597	2,707,839
Capital and reserves		
Share capital *(Note 31)*	3,012,877	3,012,877
Reserves *(Note)*	(287,280)	(305,038)
Total equity	2,725,597	2,707,839

The Company's statement of financial position was approved and authorised for issue by the Board on 20 March 2018 and is signed on its behalf by:

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

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For the year ended 31 December 2017

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

Note: Movements in the Company's reserves

	Accumulated losses *HK$'000*
At 1 January 2016	(360,251)
Profit for the year and total comprehensive income for the year	55,213
At 31 December 2016	(305,038)
Profit for the year and total comprehensive income for the year	17,758
At 31 December 2017	**(287,280)**

33. SHARE-BASED PAYMENT TRANSACTIONS

Share option scheme

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

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

33. SHARE-BASED PAYMENT TRANSACTIONS (continued)

Share option scheme (continued)

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

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

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

34. CAPITAL RISK MANAGEMENT

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

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

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

35. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

Statement of financial position

	2017 HK$'000	2016 HK$'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**2,599,482**	2,830,221
AFS investments	**1,323,380**	922,917
FVTPL – Held for trading	**1,270,302**	744,407
Financial liabilities		
Amortised cost	**2,099,320**	1,591,520

Statement of profit or loss and other comprehensive income

	2017 HK$'000	2016 HK$'000
Financial assets at FVTPL		
– Held for trading		
Fair value changes	**65,345**	(635,753)

b. Financial risk management objectives and policies

The management of the Group monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk (including interest rate risk, price risk and foreign currency risk), credit risk and liquidity risk.

There has been no change to the types of the Group's exposure in respect of financial instruments or the manner in which it manages and measures the risks.

Market risk

(i) Interest rate risk management

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

The Group is exposed to fair value interest rate risk in relation to debt securities classified as AFS investments and financial assets at FVTPL as set out in Notes 21 and 25.

35. FINANCIAL INSTRUMENTS (continued)

b. Financial risk management objectives and policies (continued)

Market risk (continued)

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

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

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

Sensitivity analysis for interest rate risk

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

If interest rates had been 50 basis points higher/lower and all other variables were held constant, profit after tax for the year ended 31 December 2017 of the Group would decrease/increase by HK$1,798,000 (2016: loss after tax would increase/decrease HK$368,000) as a result of changes in interest rate of the bank borrowings.

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

(ii) *Price risk management*

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

The sensitivity analyses below have been determined based on the exposure to equity price risks at the reporting date. For sensitivity analysis purpose, the sensitivity rate is 10% (2016: 10%) in the current year.

35. FINANCIAL INSTRUMENTS (continued)

b. Financial risk management objectives and policies (continued)

Market risk (continued)

(ii) Price risk management (continued)

If the prices of the respective listed debt and equity securities had been 10% (2016: 10%) higher/lower:

- profit after tax for the year ended 31 December 2017 would increase/decrease by HK$87,304,000 (2016: loss after tax would decrease/increase by HK$55,556,000) as a result of the changes in fair value of listed equity securities included in financial assets of FVTPL; and

- total comprehensive income for the year ended 31 December 2017 would increase/decrease by HK$132,338,000 (2016: total comprehensive expense would decrease/increase by HK$9,567,000) as a result of the changes in fair values of listed debt and securities included in AFS investments.

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

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

(iii) Foreign currency risk management

Most of the Group's transactions are denominated in the group entities' functional currency, which is either US$ or HK$.

The Group is mainly exposed to foreign currency risk in relation to US$ arising from foreign currency bank balances and cash and trade and other receivables.

The carrying amounts of the major foreign currency denominated monetary assets at the reporting date are as followings:

	Assets	
	2017	2016
	HK$'000	*HK$'000*
US$	**199,628**	68,603

35. FINANCIAL INSTRUMENTS (continued)

b. Financial risk management objectives and policies (continued)

Market risk (continued)

(iii) Foreign currency risk management (continued)

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

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

Credit risk

As at 31 December 2017, the maximum exposure of the Group 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 cash held in financial institutions; and
- the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limit, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual debt at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the Directors consider that the credit risk of the Group is significantly reduced.

As at 31 December 2017, the Group had concentration of credit risk as deposits placed at two (2016: two) financial institutions for the Group's investment in securities business of approximately HK$4,520,000 (2016: HK$2,935,000) represented approximately 88% (2016: 70%) of the Group's deposit placed with securities brokers. The management of the Group considered the credit risk on such balances held at financial institutions is limited because they are of good reputation.

35. FINANCIAL INSTRUMENTS (continued)

b. Financial risk management objectives and policies (continued)

Credit risk (continued)

The Group is exposed to credit risk in respect of its loan receivables. As at 31 December 2017, the carrying amount of loan receivables was of approximately HK$2,058,000,000 (2016: HK$754,212,000). The Group had concentration of credit risk as 56% (2016: 66%) of the total loan receivables as at 31 December 2017 was due from five (2016: three) borrowers. The balances due from these five borrowers was in an aggregate amount of approximately HK$1,151,026,000 (2016: HK$495,152,000) as at 31 December 2017, which were neither past due nor impaired. The whole amount is considered recoverable given there are sufficient collaterals to cover the entire balance. The Group seeks to maintain strict control over its outstanding loan receivables to minimise credit risk. The management has a credit policy in place and the exposures to the credit risk are monitored on an ongoing basis. Impairment allowances on outstanding loan receivables are determined by an evaluation of financial background, as well as financial condition of the borrower and the anticipated receipts for that individual loan, at the end of the reporting period.

At 31 December 2017, 75% (2016: 97%) of the Group's trade receivables was due from one (2016: one) counterparty within the securities brokerage business. The management performs periodic evaluations on customer to ensure the Group's exposure to bad debts is not significant. The experience in collection of trade receivables from customer of the securities brokerage business falls within the expectation of the directors. The management has continued to adopt business initiatives to enlarge the customer base of the securities brokerage business in order to reduce the reliance on the several major customers, and also mitigate concentrations of credit risk.

The credit risk on investments in listed debt securities is limited because the counterparties are corporations of good reputation.

The Group has concentration of credit risk on unlisted convertible securities as they are issued by two independent third parties (2016: one). However, the management considers that the credit risk is limited as they were issued by companies of good reputation.

The Group does not have significant concentration of credit risk on investment in listed securities as counterparties are diversified.

The credit risk on liquid funds is limited because the counterparties are banks of good reputation.

Other than the above, the Group does not have other significant concentration of credit risk.

35. FINANCIAL INSTRUMENTS (continued)

b. Financial risk management objectives and policies (continued)

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the operations of the Group and mitigate the effects of fluctuations in cash flows. The management regularly monitors the utilisation of bank borrowings.

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

Liquidity tables

	Weighted average effective interest rate %	Less than 1 month *HK$'000*	1 to 3 months *HK$'000*	3 months to 1 year *HK$'000*	1 to 2 years *HK$'000*	Total undiscounted cash flows *HK$'000*	Carrying amount *HK$'000*
As at 31 December 2017							
Non-derivative financial assets							
Loan and other receivables (including cash and cash equivalents)	9.1	701,238	555,772	1,458,181	12,046	2,727,237	2,599,482
AFS investments	–	1,323,380	–	–	–	1,323,380	1,323,380
FVTPL - Held for trading	–	1,270,302	–	–	–	1,270,302	1,270,302
		3,294,920	555,772	1,458,181	12,046	5,320,919	5,193,164
Non-derivative financial liabilities							
Trade and other payables	–	176,396	–	–	–	176,396	176,396
Bank borrowings	2.3	431,613	–	–	–	431,613	430,756
Notes payable	8.6	–	–	1,620,000	–	1,620,000	1,492,168
		608,009	–	1,620,000	–	2,228,009	2,099,320

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35. FINANCIAL INSTRUMENTS (continued)

b. Financial risk management objectives and policies (continued)

Liquidity risk (continued)

Liquidity tables (continued)

	Weighted average effective interest rate	Less than 1 month	1 to 3 months	3 months to 1 year	1 to 2 years	Total undiscounted cash flows	Carrying amount
	%	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
As at 31 December 2016							
Non-derivative financial assets							
Loan and other receivables (including cash and cash equivalents)	4.0	2,058,110	108,574	573,801	152,287	2,892,772	2,830,221
AFS investments	–	922,917	–	–	–	922,917	922,917
FVTPL - Held for trading	–	744,407	–	–	–	744,407	744,407
		3,725,434	108,574	573,801	152,287	4,560,096	4,497,545
Non-derivative financial liabilities							
Trade and other payables	–	32,524	–	–	–	32,524	32,524
Bank borrowings	1.5	–	–	88,723	–	88,723	88,077
Notes payable	8.6	–	–	105,000	1,620,000	1,725,000	1,470,919
		32,524	–	193,723	1,620,000	1,846,247	1,591,520

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

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

35. FINANCIAL INSTRUMENTS (continued)

c. Fair value measurements of financial instruments

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

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

Financial assets	Fair value as at		Fair value hierarchy	Valuation technique(s) and key input(s)	Significant unobservable inputs
	31 December 2017 *HK$'000*	31 December 2016 *HK$'000*			
1) Financial assets at FVTPL					
Listed equity securities	**1,045,551**	665,340	Level 1	Quoted bid prices in an active market	N/A
Unlisted debt securities	**–**	9,733	Level 2	Quoted prices in over-the-counter markets	N/A
Unlisted convertible securities	**224,751**	69,334	Level 3	Binomial option pricing model with the key inputs of risk free rate, expected volatility, dividend yield and discount rate obtained by referencing to listed bonds with similar rating	*Note*
2) AFS investments					
Listed equity securities	**44,259**	56,485	Level 1	Quoted bid prices in an active market	N/A
Listed debt securities	**1,279,121**	39,182	Level 1	Quoted bid prices in active markets	N/A
Unlisted debt securities	**–**	827,250	Level 2	Discounted rate determined by referencing to listed bonds with similar rating/quoted price in the over-the-counter market	N/A

Note: For the unlisted convertible securities, the most significant unobservable input is the discount rate. If the discount rate to the valuation model was 0.5% higher/lower while the other variables were held constant, the total carrying amount of the unlisted convertible securities would decrease/increase by HK$597,000 and HK$601,000 (2016: HK$146,000 and HK$147,000) respectively.

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For the year ended 31 December 2017

35. FINANCIAL INSTRUMENTS (continued)

c. Fair value measurements of financial instruments (continued)

Fair value hierarchy

	Level 1	Level 2	Level 3	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
As at 31 December 2017				
Financial assets at FVTPL				
Listed equity securities	**1,045,551**	**–**	**–**	**1,045,551**
Unlisted convertible securities	**–**	**–**	**224,751**	**224,751**
AFS investments				
Listed equity securities	**44,259**	**–**	**–**	**44,259**
Listed debt securities	**1,279,121**	**–**	**–**	**1,279,121**
As at 31 December 2016				
Financial assets at FVTPL				
Listed equity securities	665,340	–	–	665,340
Unlisted debt securities	–	9,733	–	9,733
Unlisted convertible securities	–	–	69,334	69,334
AFS investments				
Listed equity securities	56,485	–	–	56,485
Listed debt securities	39,182	–	–	39,182
Unlisted debt securities	–	827,250	–	827,250

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

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

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

36. ACQUISITION OF A SUBSIDIARY

On 22 February 2016, the Group acquired 100% equity interests in Harmony Securities Limited (now known as CS Wealth Securities Limited) ("Harmony Securities") from independent third parties at a consideration of approximately HK$18,312,000 and the acquisition was settled by cash on the completion date. The acquisition was accounted for using the purchase method. Harmony Securities is engaged in securities brokerage business and the purpose of the acquisition is to expand the Group's business portfolio.

Assets and liabilities of Harmony Securities as at the date of acquisition were as follows:

	HK$'000
Property, plant and equipment	19
Trade and other receivables	5,802
Pledged bank deposits	3,078
Bank balances and cash	11,445
Trade and other payables	(6,032)
Net assets acquired	14,312
Goodwill	4,000
Consideration transferred	18,312

Goodwill arose in the acquisition of Harmony Securities because the cost of the combination included a control premium. In addition, the consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of Harmony Securities.

None of the goodwill arising on this acquisition was expected to be deductible for tax purpose.

	HK$'000
Net cash outflow for acquisition of a subsidiary:	
Cash consideration paid	18,312
Bank balances and cash acquired	(11,445)
	6,867

Acquisition-related costs amounting to approximately HK$697,000 had been excluded from the consideration transferred and had been recognised as an expense in the prior year's profit or loss.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

37. OPERATING LEASES

The Group as lessee

The Group made approximately HK$9,000,000 (2016: HK$9,027,000) minimum lease payments under operating leases during the year mainly in respect of its office premises.

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

	2017	2016
	HK$'000	*HK$'000*
Within one year	**9,577**	8,382
In the second to fifth year, inclusive	**18,930**	–
	28,507	8,382

Operating lease payments mainly represented rentals payable by the Group for its office premises. Leases are negotiated for an average term of three years (2016: one year) and rentals are fixed for an average of three years (2016: one year).

38. PLEDGE OF ASSETS

As at 31 December 2017, as disclosed in Notes 21 and 25, debt securities of approximately HK$744,281,000 (2016: HK$86,432,000) and equity securities of approximately HK$19,349,000 (2016: nil) were pledged for bank borrowings by way of floating charge respectively.

In addition, as disclosed in Note 26, the Group's credit facilities for issuance of letters of credit and settlement of the securities brokerage activities were secured by the Group's bank deposits of approximately HK$30,821,000 (2016: HK$30,531,000) in aggregate.

As at 31 December 2016, bill receivables of approximately HK$21,893,000 were pledged to banks by way of floating charge.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

39. RELATED PARTY DISCLOSURES

Compensation of key management personnel

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

	2017	2016
	HK$'000	*HK$'000*
Short-term benefits	**22,177**	20,683
Post-employment benefits	**151**	202
	22,328	20,885

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

40. RETIREMENT BENEFIT SCHEME

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

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

The total costs charged to the statement of profit or loss and other comprehensive income of approximately HK$846,000 (2016: HK$846,000) represent contributions payable to this scheme by the Group.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

41. PRINCIPAL SUBSIDIARIES

Particulars of the principal subsidiaries at 31 December 2017 and 2016 are as follows:

Name	Place of incorporation/ registration and operation	Class of shares held	Issued and fully paid ordinary share capital	Percentage of equity interest and voting power attributable to the Company				Principal activities
				31 December 2017		31 December 2016		
				Direct %	Indirect %	Direct %	Indirect %	
China Strategic Management Limited	Hong Kong ("HK")	Ordinary	HK$1	–	100	–	100	Provision of management service
China Strategic Metal and Minerals Limited	HK	Ordinary	HK$1	–	100	–	100	Trading of metal minerals, metal and coke products
CS Credit Limited	HK	Ordinary	HK$1	–	100	–	100	Money lending
Glory Legacy Asia Limited	British Virgin Islands ("BVI")	Ordinary	US$1 (2016: US$99,000,001)	–	100	–	100	Investment in securities
Guide Plus Investments Limited	HK	Ordinary	HK$1	–	100	–	100	Investment in securities
Max Talent Investments Limited	HK	Ordinary	HK$1	–	100	–	100	Sales of electronic components
Prospect Vantage Holdings Limited	BVI	Ordinary	US$1	–	100	–	100	Investment in securities
Rich Crown Investments Limited	HK	Ordinary	HK$439,506,046	–	100	–	100	Investment in securities
U Credit (HK) Limited	HK	Ordinary	HK$1	–	100	–	100	Money lending
CS Wealth Securities Limited	HK	Ordinary	HK$40,000,000 (2016: HK$10,000,000)	–	100	–	100	Securities brokerage

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

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

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

41. PRINCIPAL SUBSIDIARIES (continued)

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

Principal activities of business	Principal place	Number of subsidiaries 2017	2016
Investment holding	BVI	**11**	11
Inactive	BVI	**2**	2
Inactive	HK	**4**	4
		17	17

42. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

	Bank borrowings *HK$'000*	Notes payable *HK$'000*	Interest payable *HK$'000*	Total *HK$'000*
At 1 January 2017	88,077	1,470,919	4,603	1,563,599
Financing cash flows	342,679	(105,657)	(7,068)	229,954
Interest expenses	–	126,906	7,984	134,890
At 31 December 2017	**430,756**	**1,492,168**	**5,519**	**1,928,443**

Five-Year Financial Summary

RESULTS

	For the year ended 31 December				
	2017	2016	2015	2014	2013
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Continuing operations					
Revenue	**1,337,246**	270,706	239,466	417,590	109,479
Profit (loss) before tax	**178,185**	(518,140)	692,895	274,491	(7,401)
Income tax (expense) credit	**(51,992)**	81,270	(108,539)	(1,201)	(403)
Profit (loss) for the year from continuing operations	**126,193**	(436,870)	584,356	273,290	(7,804)
Discontinued operation					
Profit (loss) for the year from discontinued operation	**–**	–	–	106,529	(9,887)
Profit (loss) for the year	**126,193**	(436,870)	584,356	379,819	(17,691)
Attributable to:					
Owners of the Company	**126,193**	(436,870)	584,148	376,994	(15,398)
Non-controlling interests	**–**	–	208	2,825	(2,293)
	126,193	(436,870)	584,356	379,819	(17,691)

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	At 31 December				
	2017	2016	2015	2014	2013
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Total assets	**5,240,895**	4,563,197	3,593,751	1,272,305	767,643
Total liabilities	**(2,168,738)**	(1,641,970)	(222,751)	(11,761)	(161,267)
	3,072,157	2,921,227	3,371,000	1,260,544	606,376
Equity attributable to owners of the Company	**3,072,157**	2,921,227	3,371,000	1,259,673	608,871
Non-controlling interests	**–**	–	–	871	(2,495)
	3,072,157	2,921,227	3,371,000	1,260,544	606,376