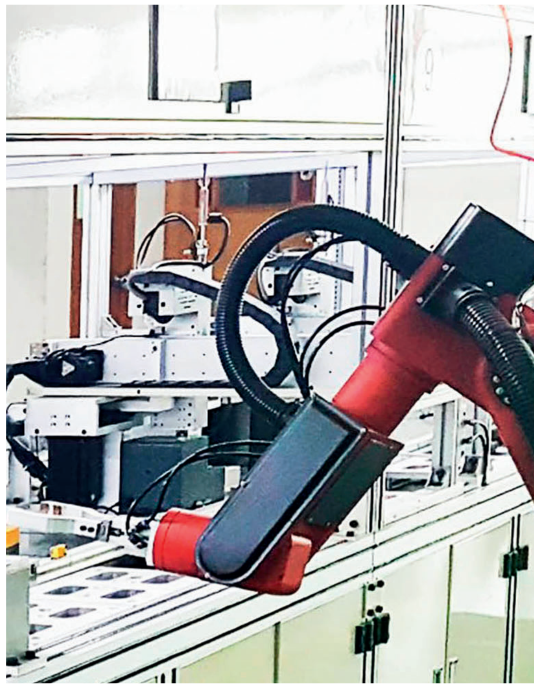
South China Holdings Company Limited
南華集團控股有限公司

Incorporated in the Cayman Islands with limited liability

Stock Code : 00413



2018

ANNUAL REPORT

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Ng Hung Sang (*Chairman*)
Ms. Cheung Choi Ngor
(*Vice Chairman and Co-Chief Executive Officer*)
Mr. Richard Howard Gorges (*Vice Chairman*)
Mr. Ng Yuk Yeung Paul
(*Executive Vice Chairman and Co-Chief Executive Officer*)

Non-executive Directors

Ms. Ng Yuk Mui Jessica
Mr. Ng Yuk Fung Peter
Mr. David Michael Norman
Ms. Li Yuen Yu Alice

Independent Non-executive Directors

Mr. Chiu Sin Chun
Mr. Kam Yiu Shing Tony
Mrs. Tse Wong Siu Yin Elizabeth
Mr. Yip Dicky Peter, J.P.

AUDIT COMMITTEE

Mr. Kam Yiu Shing Tony (*Committee Chairman*)
Mr. Chiu Sin Chun
Mr. David Michael Norman
Mrs. Tse Wong Siu Yin Elizabeth
Mr. Yip Dicky Peter, J.P.

REMUNERATION AND NOMINATION COMMITTEE

Mrs. Tse Wong Siu Yin Elizabeth
(*Committee Chairman*)
Mr. Chiu Sin Chun
Mr. David Michael Norman
Ms. Li Yuen Yu Alice
Mr. Yip Dicky Peter, J.P.

COMPANY SECRETARY

Mr. Watt Ka Po James

AUDITOR

KPMG
Certified Public Accountants

PRINCIPAL BANKERS

The Hongkong and Shanghai Banking Corporation Limited
Hang Seng Bank Limited
China Construction Bank (Asia) Corporation Limited
Chong Hing Bank Limited
Nanyang Commercial Bank, Limited
The Bank of East Asia, Limited

REGISTERED OFFICE

P.O. Box 31119
Grand Pavilion
Hibiscus Way
802 West Bay Road
Grand Cayman, KY1-1205
Cayman Islands

PRINCIPAL PLACE OF BUSINESS

28th Floor, Bank of China Tower
1 Garden Road, Central
Hong Kong

SHARE REGISTRAR AND TRANSFER OFFICE

Union Registrars Limited
Suites 3301–04, 33rd Floor
Two Chinachem Exchange Square
338 King's Road
North Point
Hong Kong

STOCK CODE

00413

WEBSITE OF THE COMPANY

http://www.scholding.com

Chairman's Statement and Management Discussion and Analysis

I am pleased to report the activities of South China Holdings Company Limited (the "Company") and its subsidiaries (collectively the "Group") for the year ended 31 December 2018.

FINANCIAL SUMMARY AND KEY PERFORMANCE INDICATORS

The Group recorded revenue of HK$4,228 million (2017: HK$3,902 million) and profit of HK$140.7 million (2017: HK$248.1 million) for the year ended 31 December 2018, representing an increase of 8% and a decrease of 43% respectively, as compared to corresponding amounts reported in 2017. The decrease was mainly attributable to the lack of an one-off non-recurring gain on disposal of investment properties amounted to HK$131.1 million in last year. Both revenue and profit for the year are the financial key performance indicators of the Group. Earnings per share attributable to equity holders of the Company for the year was HK1.08 cents (2017: HK1.77 cents).

DIVIDENDS

The Company had not declared or paid any dividend during the year (2017: nil) and the board of the directors (the "Board" or the "Directors") of the Company does not recommend the payment of a final dividend for the year ended 31 December 2018 (2017: nil).

BUSINESS REVIEW

The principal businesses of the Group include trading and manufacturing, property investment and development and agriculture and forestry.

Trading and Manufacturing

The trading and manufacturing segment mainly comprises (i) OEM manufacturing of toys products, and (ii) trading of footwear products. The segment recorded a 9% increase in revenue to HK$4,007 million (2017: HK$3,692 million) and a 51% increase in operating profit to HK$137.8 million (2017: HK$91.4 million) for the year ended 31 December 2018.

(i) *OEM toys manufacturing*

The OEM toys operation achieved a record-breaking revenue of HK$3,602 million, representing a 6% increase compared to last year. The growth was mainly attributable to the ongoing improvement in our provision of one-stop integral solutions to customers and therefore enhanced customer loyalty which continuously win trusts and business from them. Our customers also win as this can be seen with many of our manufactured products being awarded world-acclaimed recognitions and awards such as "Innovation Toy of the Year 2018" at the North American International Toy Fair.

While increasing production, the Group managed to provide high quality on timely delivery of products to our customers throughout the year and this is mainly attributable to the professionalism of our R&D and engineering department in providing continuous modification and technological solutions.

Facing the increase in material and labour costs, we continue to optimize our production capability and capacity. The Group focused on enhancing the performance of computer systems, simplifying the operation workflow and increasing efficiency through big data analytic systems. The new factories in Guangxi and Dongguan opened in last two years are able to cope with the increase in production and to provide a base with lower labour costs.

(ii) ***Trading of footwear products***

During the year ended 31 December 2018, revenue from the footwear trading operations increased by 52% to HK$371.6 million, mainly attributable to increase in sales volume from customers. Overall results from operations has improved to a profit of HK$8.9 million in 2018 due to increase in sales volume and gross profit margin.

Property Investment and Development

During the year ended 31 December 2018, revenue of the property investment and development segment increased by 8% to HK$211.2 million. The operating profit, which included fair value gain on investment properties, has decreased by 31% to HK$356.4 million in 2018 mainly due to the lack of a gain on disposal of investment properties in last year.

Rental income remained stable during the year. The Avenue of Stars ("AOS"), a fur-themed shopping mall which hosts major fur brands in Shenyang, has continued to be one of the most reputable and successful fur mall in Liaoning and has a significant share of the fur retail market. Furthermore, our rental portfolio in Nanjing and Tianjin reported an increase in rental income during the year primarily came from increment in rental rates in both regions.

In addition to our existing rental portfolios, we continue to focus on and develop our property project in Shenyang. The project, located on the eastern part of the most robust pedestrian street of the North-East known as Zhongjie (中街) of Dadong district, is named the Central Square. The project is also situated right above line 1 of the mass transit railway and will also be potentially intersected with line 6 to be constructed in next few years.

The project involves a total Gross Floor Area ("GFA") of over 500,000 square metres and is a mixed-use project with a heavy emphasis on city living and convenience to the residents. The first phase of the Central Square with an approximate salable GFA of 140,000 square metres, comprises two residential towers, one serviced apartment tower and a retail podium. The construction work of underground space, commercial podium and the sales office were completed in prior year; the construction of residential and serviced apartment towers are well underway and in the process of completion as scheduled. Meanwhile, over 70% of pre-sale residential and serviced apartments have been sold; it is planned that we will launch the selling of the remaining units of one residential tower and one serviced apartment tower in 2019. With its prime location situated right above a mass transit railway line and potential intersection with another one, together with a robust pedestrian street, it is envisioned that the Central Square will become a must-go place for retailers, consumers and local residents.

Agriculture and Forestry

Revenue and operating loss from the agriculture and forestry segment was HK$9.7 million and HK$58.7 million in 2018, representing a 32% decrease and a 21% increase as compared to 2017, respectively. The bearer plants balance decreased from HK$63.5 million as at 31 December 2017 to HK$49.7 million as at 31 December 2018; in terms of Renminbi, the functional currency of the relevant subsidiaries, the bearer plants balance decreased by about 18%. The decrease was mainly due to the combined effect of write-off and depreciation of bearer plants, and exchange realignment derived from RMB depreciation.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2018, the Group had a current ratio of 1.3 and a gearing ratio of 41.8% (31 December 2017: 1.9 and 42.0%, respectively). The gearing ratio is computed by dividing the Group's total long-term bank borrowings of HK$2,497 million by the Group's equity of HK$5,978 million. The Group's operation and investments continued to be financed by internal resources and bank borrowings.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND RELATED HEDGES

The Group operates in Hong Kong and mainland China and is exposed to foreign exchange risk arising from various currency exposures primarily with respect to Renminbi and United States dollars. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in operations in mainland China. The Group manages foreign exchange risk by closely monitoring the movements of the foreign currency rates and enters into forward contracts whenever appropriate.

CAPITAL STRUCTURE

Except for the issue of bonus shares and the redemption of the redeemable convertible preference shares as detailed in note 39 to the financial statements, there was no material change in the Group's capital structure.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

There was no material acquisition or disposal of subsidiary or associated company during the year.

PLEDGE OF ASSETS AND CONTINGENT LIABILITIES

There was no material change in the Group's pledge of assets and contingent liabilities.

Further details of pledge of assets and contingent liabilities are set out in notes 43 and 42 to the financial statements respectively.

EMPLOYEES

As at 31 December 2018, the total number of employees of the Group was approximately 17,461 (2017: approximately 17,955). Employees' costs (including directors' emoluments) amounted to approximately HK$1,499 million for the year ended 31 December 2018 (2017: approximately HK$1,493 million).

In addition to salary, other fringe benefits such as medical subsidies, provident fund and subsidized training programs are offered to all employees of the Group. Performance of the employees is normally reviewed on an annual basis with adjustment compatible to the market. Individual employees may also receive a discretionary bonus at the end of each year based on his/her performance. Employees may also be granted share options and share awards under the share option scheme and the employee's share award scheme adopted by the Company. Details of the share option scheme and the share award scheme are set out in notes 40 and 39(c) to the financial statements respectively.

PROSPECTS

Going forward, 2019 will be another challenging year given the dynamic changes in the macroeconomic environment worldwide. The ongoing trade friction between China and the United States and the increasing manufacturing cost will create significant uncertainties to global market. Facing such a challenging backdrop, the management will continue to take precautionary actions to minimise material negative impact to the Group. At the same time, the management will adhere to prudent long-term strategies to explore businesses opportunities in China and continue to drive revenues while at the same time be cost conscious to generate returns and create value for our shareholders.

Trading and Manufacturing

OEM toys manufacturing

The Group aims to provide one-stop integral solutions to customers, with better service quality, higher operating efficiency and more effective cost control. To meet the target, we will continue fine tuning pricing strategy in response to rising labor and raw materials cost, while expanding product range and customer base.

We will focus on consolidating our existing orders to grow steadily, while continue to explore possibilities in expanding product category. We will keep up our success in producing toy robots, drones and sensing devices connected through Wi-Fi, blue tooth or other mediums.

The Group has traditionally invested heavily in the R&D and engineering department and will increase its capital investment into process technology and upgrade mechanical automation of manufacturing high-tech toys. We have set up the Wah Shing Academy in 2017 to provide continuous education, collaboration of know-how and to further emphasize lean manufacturing. Management will continue to expand research departments and collaborations with various academic institutions with China to further increase its competitiveness and expertise in this field. We will also get our Wah Shing Academy accreditation with various reputable institutions.

Furthermore, the Group will further expand its production capacity in addition to two new factories in Guangxi and Dongguan opened in prior years, and has identified a few suitable existing plants to support our business growth in future.

In view of the rapid change of global economy arose from the ongoing trade friction between China and the United States, the Group is constantly reviewing and navigating its business strategies based on the market changes.

Property Investment and Development

Property Investment

The Group has a property investment portfolio with total floor area of approximately 580,000 square metres in mainland China and 280,000 square feet (approximately 26,000 square metres) in Hong Kong. The investment properties in mainland China are mostly in prime locations in Nanjing, Shenyang and Tianjin.

With the management team effort, the Avenue of Stars has become a major fur-themed shopping mall in Shenyang and the management team will continue to increase the pedestrian flow so as to further increase its rental contribution in future. We will continue to market Avenue of Stars as the leading fur mall in Northern China and will build upon the significant market share that we have managed to capture over the last few years.

Nanjing and Tianjin rental portfolio is expected have a continuing upside in 2019 and onwards as we are in progress of implementing our commercialisation strategy across the portfolio.

Meanwhile, the Group is actively considering offload non-core and low-contribution properties in Hong Kong and in mainland China in order to reallocate resources to more promising investment properties or land banks.

Property Development

The construction work of the first phase of the Central Square in the Southern part of our Dadong site in Shenyang is well underway and in the process of completion as scheduled. With its prime location situated right above one mass transit railway line and potential intersection with another line, together with a robust pedestrian street, the Central Square will become a prime shopping and residential area in Shenyang with a mix of trendy bars and restaurants, boutiques, department stores, shopping malls and hotels. It is planned that we will launch the selling of the remaining units of one residential tower and one serviced apartment tower in 2019.

The second phase of the Central Square in the Northern part of Dadong site, which is directly opposite from the pedestrian street to the above, is in the process of re-settling non-residential units. It is also a mixed development project, and the positioning will be thematically in line with the South, with a slightly higher class distinction.

Our existing land bank in the Tianjin Wuqing district provides us with a potential site area of over 200,000 square metres, with approximately 88,000 square metres which has recently commenced its feasibility study and development plan. In light of the development of the capital economic circle concept (京津冀首都經濟圈), and the plan of Tianjin government to develop the Wuqing district into a university zone (京津冀協同發展國家大學創新園區) which is nearby our development site, we are cautiously optimistic to its future contributions.

The industrial land use conversion at Nanjing and Tianjin to commercial use will continue to be our area of focus. Our property development team will capitalize its experience of successful conversions to turn our land banks for high value and returns.

Agriculture and Forestry

The Group currently has long-term leases of over 530,000 mu (approximate to 353 million square metres) of woodland, farmland, fishpond and lake space in various major provinces in mainland China, and is focusing on the plantation of fruits and crops such as apple, winter date, peach, pear and corn; and breeding of livestock such as pig for sale. The Group will continue to explore plantation opportunities for high profit margin species and focus on improving the sales distribution channels so as to improve the revenue and also the operating results of the segment.

Management will continue their effort in cost control and efficient resource utilisation with a view to containing costs.

PRINCIPAL RISKS AND UNCERTAINTIES

The following section lists out the key risks and uncertainties facing the Group. It is a non-exhaustive list and there may be other risks and uncertainties additional to the key risk areas outlined below.

Risks relating to Trading and Manufacturing

Macroeconomic environment

The Group designs and manufactures a wide variety of toys, shoes and other leather products. Our customers sell such products worldwide to the end customers. The Group's financial performance, therefore, hinges on the level of discretionary consumer spending in the markets in which our products are eventually sold. Recessions, credit crises and other economic downturns can result in less consumer disposable income and lower consumer confidence. These factors can reduce orders from our customers.

Cost increase

Cost increases, whether resulting from rising costs of materials, transportation, minimum wage legislations in mainland China or compliance with existing or future regulatory requirements could impact the profit margins realised by the Group on the sale of its products. In addition, the Group could be the subject of future product liability suits or product recalls, which could harm our business.

Risks relating to Property Investment and Development

Risks associated with the property market in mainland China

A significant part of the Group's property portfolio is located in mainland China and is therefore subject to the risks associated with China's property market. The Group's operations in mainland China may also be exposed to the risks of policy change, RMB exchange rate change, interest rate change, demand-supply imbalance, and the overall economic conditions, which may pose an adverse impact on the Group's business, financial condition or results of operations.

Risks associated with the property market in Hong Kong

The state of Hong Kong's economy and property market, legislative and regulatory changes, government policies and political conditions also have an effect on the Group's revenue derived from the Group's property portfolio in Hong Kong. The government may introduce property cooling measures from time to time. Rental levels in Hong Kong are subject to competition arising from supply in the primary sector.

Risks relating to Agriculture and Forestry

Risk associated with natural disasters or adverse weather conditions

The Group's agriculture and forestry operations are susceptible to natural disasters and adverse weather conditions such as droughts, floods and earthquakes, and environmental hazards. The occurrence of any of the above events in or in close proximity to our cultivation area may cause a reduction or delay in our production output, which may adversely affect the Group's business and operating performance.

The Group will conduct regular reviews and focus on mitigating the risks exposure of each business unit.

UPDATE ON LITIGATION PROCEEDINGS

(i) Against Nanjing Skytech Co., Limited and Others

Infringement of copyrights case

Reference is made to the announcement made by the Company dated 5 December 2016 in relation to the litigation in the People's Republic of China ("PRC") concerning infringement of copyrights of certain computer softwares that belong to Nanjing South China Skytech Technology Co., Limited (南京南華擎天資訊科技有限公司) ("South China Skytech").

On 31 January 2000, Janful Limited, an indirect wholly-owned subsidiary of the Company, and Nanjing Skytech Co., Limited (南京擎天科技有限公司) ("Nanjing Skytech") entered into a joint venture agreement to set up South China Skytech to engage, mainly, in software development, research, sales and after-sales service, system integration and other related electronic business.

In or about 2003, business of South China Skytech further deteriorated and suffered serious loss. Upon investigations, it was found that Nanjing Skytech illegally transferred all the computer softwares belonging to South China Skytech ("Computer Softwares") for its own use and registered the ownership of the copyrights of the Computer Softwares under its own name or under the name of Nanjing Skytech Software Technology Co., Limited (南京擎天軟件科技有限公司) ("Skytech Software"), rendering South China Skytech unable to continue its business. On the other hand, the assets and profits of Nanjing Skytech continued to increase and eventually Sinosoft Technology Group Limited (中國擎天軟件科技集團有限公司) ("Sinosoft"), the parent company of Nanjing Skytech, was listed on the Stock Exchange of Hong Kong in 2013 (stock code: 1297).

South China Skytech commenced legal proceedings in Jiangsu High People's Court ("Jiangsu High Court") against, inter alia, Nanjing Skytech seeking the Jiangsu High Court to determine that the ownership of the copyrights of a total of 31 Computer Softwares do belong to South China Skytech; and that Nanjing Skytech do pay South China Skytech damages in the sum of RMB210.4 million (to be assessed) for infringement of copyrights.

On 28 November 2016, the Jiangsu High Court delivered its first instance judgment on the Computer Softwares copyrights ownership. The Jiangsu High Court determined that during the period from March 2000 to March 2003, Nanjing Skytech basically had no employees. Not only that, before 2002, Nanjing Skytech had no fixed assets and therefore it did not have the necessary means to develop the Computer Softwares. The development of the Computer Softwares was mainly relied on South China Skytech's manpower and physical technology capability. The Jiangsu High Court also determined that Nanjing Skytech and Skytech Software had exploited South China Skytech's physical technology capability to develop the Computer Softwares and registered the ownership of the copyrights of the Computer Softwares under their respective names. Such actions did not comply with the basic principles of copyright laws. The ownership of the copyrights of a total of 13 Computer Softwares was held belong to South China Skytech.

The Company wishes to give an update that all parties in the said infringement of copyrights case have appealed to the Supreme People's Court of China. The Supreme People's Court of China issued a ruling on 26 October 2018 which revoked the first-instance judgment and sent the case back to the Jiangsu High Court for retrial.

The Company considers that Nanjing Skytech was in fact an empty shell company, basically with no employees, no office base and no capital. It had no means whatsoever to develop any computer software. Therefore, the Company considers that the remaining 18 Computer Softwares were also developed using the manpower and physical technology capabilities of South China Skytech and therefore the ownership of the copyrights of the remaining 18 Computer Softwares should also belong to South China Skytech. The ruling of the Supreme People's Court of China disregarded facts and imposed material injustice. The Company will explore every possible course of action to claim for the ownership of the remaining 31 Computer Softwares.

In addition, it is noted that Sinosoft had disclosed in its prospectus dated 27 June 2013 of its alleged ownership of certain computer softwares. The Company considers that most of these computer softwares were also subsequently developed from the Computer Softwares belonging to South China Skytech. The Company will explore every possible course of action to claim against Nanjing Skytech and/or Sinosoft for infringement of copyrights by these computer softwares and to seek an injunction prohibiting Nanjing Skytech and/or Sinosoft to continue to sell and/or use these computer softwares.

Liability dispute of damaging the interests of the Company case

Reference is made to the announcement of the Company dated 20 July 2016 in relation to the final judgment made by the Jiangsu High Court against Nanjing Skytech, Ms. Xin Yingmei, Mr. Wang Xiaogang and Mr. Zhang Hong (the "Defendants") who had breached the non-competition obligation under PRC Company Law and were liable to pay all the gain therefrom to South China Skytech as follows:

1. Ms. Xin Yingmei, Mr. Wang Xiaogang, Mr. Zhang Hong and Nanjing Skytech shall pay RMB22,533,377.09 to South China Skytech;

2. Ms. Xin Yingmei shall pay RMB4,392,329.95 to South China Skytech. Mr. Wang Xiaogang, Mr. Zhang Hong and Nanjing Skytech shall be jointly liable to the payment;

3. Mr. Wang Xiaogang shall pay RMB691,859.56 to South China Skytech. Ms. Xin Yingmei, Mr. Zhang Hong and Nanjing Skytech shall be jointly liable to the payment; and

4. Mr. Zhang Hong shall pay RMB288,274.85 to South China Skytech. Ms. Xin Yingmei, Mr. Wang Xiaogang and Nanjing Skytech shall be jointly liable to the payment.

The Jiangsu Immediate People's Court had frozen a bank account held by Nanjing Skytech with a total sum of approximately RMB28 million in February 2017. As all parties have appealed to the Supreme People's Court of China for retrial, the case is currently at the stage of retrial application review.

(ii) Development right of a piece of land situate at Tianjin Binhai New District

In April 1993, World Right Investments Limited (環威投資有限公司) ("World Right"), an indirect wholly-owned subsidiary of the Company, and Tianjin Tanggu Property Development Company Limited (天津塘沽房地產開發股份有限公司)(currently known as Binhai Investment Group Holding Company Limited (濱海投資集團股份有限公司) ("Binhai Investment Group")) formed a joint venture company in PRC known as Tianjin South China Property Development Company Limited (天津南華房地產開發有限公司)("South China Property"). World Right holds 51% equity interest in South China Property.

In June 1993, World Right and Binhai Investment Group entered into a joint development agreement (the "Development Agreement"). It was agreed under the Development Agreement, inter alia, that World Right and Binhai Investment Group shall jointly develop a piece of land situate at Tianjin Binhai New District with an area about 5 hundred thousand square metres (the "5 Hundred Thousand Square Metres Land") and World Right shall pay RMB10.4 million in cash to increase the capital investment in South China Property. World Right duly paid the capital investment of RMB10.4 million which had been used for paying land formation work of the 5 Hundred Thousand Square Metres Land. However, Binhai Investment Group refused to perform the Development Agreement and refused to recognize that the development right of the 5 Hundred Thousand Square Metres Land shall be jointly owned by World Right and Binhai Investment Group.

In 2013, World Right commenced legal proceedings in Tianjin High People's Court ("Tianjin High Court") against Binhai Investment Group claiming for specific performance of the Development Agreement.

In December 2015, the Tianjin High Court overruled World Right's claim. World Right appealed to the Supreme People's Court of China. In September 2016, the Supreme People's Court of China determined that the Tianjin High Court had failed to investigate the status of the registration of the land use right and the status of the development right of the 5 Hundred Thousand Square Metres Land, but confirmed that Tianjin Cheng Tou Binhai Property Company Limited (天津城投濱海房地產經營有限公司) ("Cheng Tou Binhai") shall have the land use right of the 5 Hundred Thousand Square Metres Land. Under such circumstances, the Supreme People's Court of China held that there was insufficient evidence to reject World Right's claim for specific performance and ordered a retrial of the case at the Tianjin High Court. On 29 December 2018, the Tianjin High Court overruled the claim of World Right on the ground that the Development Agreement could not be performed in fact for 290,000 square metres of the 5 Hundred Thousand Square Metres Land that had been actually developed and constructed in 2017. World Right has filed an appeal within the statutory time limit on the ground that the development of the 290,000 square metres land was illegal and the remaining land still met the conditions for performance of the agreement.

At the same time, to further protect its rights and interests, in October 2018, South China Property filed a malicious collaboration lawsuit against Binhai Investment Group, Cheng Tou Binhai, Tianjin Binhai New Area Construction Investment Group Co., Ltd. (天津市濱海新區塘沽城市建設投資集團有限公司), the People's Government of Binhai New Area of Tianjin and the Binhai New Area Planning & Land Resources Administration of Tianjin. In January 2019, it filed another lawsuit against Binhai Investment Group and Cheng Tou Binhai in relation to the tort dispute on the 290,000 square metres land. The two cases are now under the procedure of first instance.

In addition, World Right and South China Property had instituted a series of administrative litigations against relevant government authorities in relation to various issues in the issuance of the land use right certificate, engineering planning certificate and real property title certificate. Of these litigations, six were related to the land use right certificate, and had been rejected by the court on the ground of exceeding the time limit for action. World Right and South China Property believed that the court was deliberately evading the substantive hearing by repeatedly rejecting their petitions for procedural issues such as qualification of subject and time limit, and thus had committed injustice and material misconduct. Therefore, they intended to appeal to the Supreme People's Court of China for retrial. Four of the litigations were related to the engineering planning certificate and had been rejected by the court for lack of interest, for which World Right and South China Property have filed an appeal within the statuary time limit. Three of the litigations were related to the real property title certificate and are currently at the first instant.

Subject to inherent uncertainties of litigations, in the event of favourable outcome of the litigation cases, it is expected that World Right and/or South China Property may restore the joint development right of certain area of land in Tianjin Binhai.

In or about July 2017, the relevant Tianjin government department ordered to stop the construction works of a real estate development situated on portion of the 5 Hundred Thousand Square Metres Land ("the said Real Estate Development") for the reason that the necessary construction permit for the said Real Estate Development has not been issued, and to pay administrative fine. According to information obtained from investigation, Tianjin Sino Ocean Hua Zi Zhi Ye Company Limited ("Sino Ocean Hua Zi"), an indirect subsidiary of Sino-Ocean Group Holding Limited (stock code: 3377) acted as the developer of the said Real Estate Development. However, according to evidence produced at the litigation proceedings held at the Tianjin High Court, Sino Ocean Hua Zi does not have the land use right certificate regarding the said Real Estate Development. On the face of the evidence available, the obtaining of the development right by Sino Ocean Hua Zi was in breach of the applicable PRC laws. According to Article 39 of the Urban Real Estate Administration Law of the People's Republic of China, 25 percent or more of the total investment shall have been spent on the housing development project before transferring the land use right. Since the necessary construction permit for the said Real Estate Development has not been issued, it is highly probable that the total investment in the said Real Estate Development has not met the said requirement. World Right will explore every possible course of action to protect its rights under the Development Agreement.

ENVIRONMENTAL POLICIES

We are committed to building an environmentally-friendly corporation that pays close attention to conserving natural resources. We strive to minimize our environmental impact by saving electricity and encouraging recycle of office supplies and other materials. We also require our PRC establishments to operate in strict compliance with the relevant environmental regulations and rules and possess all necessary permission and approval from the relevant Chinese regulators.

COMPLIANCE WITH LAWS AND REGULATIONS

Compliance procedures are in place to ensure adherence to applicable laws, rules and regulations, which have significant impact on the Group. Updates on the applicable laws, rules and regulations are brought to the attention of relevant employees and relevant operation units from time to time.

RELATIONSHIPS WITH KEY STAKEHOLDERS

Employees

Human resources are one of the greatest assets of the Group and the Group regards the personal development of its employees as highly important. The Group wants to continue to be an attractive employer for committed employees. The Group has also adopted share option schemes and share award scheme to recognize and reward the contribution of the employees to the growth and development of the Group.

Customers

The Group has the mission to provide excellent customer service whilst maintaining long term profitability, business and asset growth. Various means have been established to strengthen the communications between the customers and the Group in the provision of excellent customer service towards market penetration and expansion.

Service vendors

Sound relationships with key service vendors of the Group are important in supply chain, premises management and meeting business challenges and regulatory requirements, which can derive cost effectiveness and foster long term business benefits. The key service vendors comprise system and equipment vendors, external consultants which provide professional services, suppliers of office goods/ merchandise and other business partners which provide value-added services to the Group.

Shareholders

One of the corporate goals of the Group is to enhance corporate value to shareholders. The Group is poised to foster business developments for achieving the sustainability of earnings growth and rewarding shareholders taking into account capital adequacy levels, liquidity positions and business expansion needs of the Group.

APPRECIATION

On behalf of the Board, I wish to express my gratitude to our customers and shareholders for their continued support and all our staff members for their hard work and dedicated services.

Ng Hung Sang
Chairman

Hong Kong, 26 March 2019

Directors' Biographical Details

EXECUTIVE DIRECTORS

Mr. Ng Hung Sang, aged 69, is an Executive Director, the Chairman and a member of the Executive Committee of the Company. He is actively involved in the overall corporate policies, strategic planning and business development of the Group. He is also an executive director and the chairman of South China Financial Holdings Limited, being listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and South China Assets Holdings Limited, being listed on the GEM of the Stock Exchange. He also holds several directorships in certain subsidiaries of the Group. He holds a Master degree in Marketing from Lancaster University in the United Kingdom and is a fellow member of the Chartered Institute of Management Accountants. He was appointed as a Director of the Company on 24 June 1992. He is the father of Ms. Ng Yuk Mui Jessica, a Non-executive Director of the Company, Mr. Ng Yuk Fung Peter, a Non-executive Director of the Company and Mr. Ng Yuk Yeung Paul, an Executive Director, the Executive Vice Chairman and the Co-Chief Executive Officer of the Company. He is a director of certain substantial shareholders of the Company within the meaning of Part XV of the Securities and Futures Ordinance.

Ms. Cheung Choi Ngor, aged 65, is an Executive Director, the Vice Chairman, the Co-Chief Executive Officer and a member of the Executive Committee of the Company. She is also an executive director and a vice chairman of South China Financial Holdings Limited, being listed on the Main Board of the Stock Exchange and an executive director of South China Assets Holdings Limited, being listed on the GEM of the Stock Exchange. She also holds several directorships in certain subsidiaries of the Group. She holds a Master degree in Business Administration from University of Illinois in the United States of America. She was a member of the 10th, 11th and 12th National Committee of the Chinese People's Political Consultative Conference. She was appointed as a Director of the Company on 24 June 1992. She was re-designated as the Co-Chief Executive Officer of the Company with effect from 16 May 2018. She is a director of certain substantial shareholders of the Company within the meaning of Part XV of the Securities and Futures Ordinance.

Mr. Richard Howard Gorges, aged 75, is an Executive Director, the Vice Chairman and a member of the Executive Committee of the Company. He is also an executive director of South China Assets Holdings Limited, being listed on the GEM of the Stock Exchange. He also holds several directorships in certain subsidiaries of the Group. He holds a Master degree in law from University of Cambridge in the United Kingdom. He was appointed as a Director of the Company on 24 June 1992. He is a director of certain substantial shareholders of the Company within the meaning of Part XV of the Securities and Futures Ordinance.

Mr. Ng Yuk Yeung Paul, aged 37, is an Executive Director, the Executive Vice Chairman, the Co-Chief Executive Officer and a member of the Executive Committee of the Company. He is also a non-executive director of South China Assets Holdings Limited, being listed on the GEM of the Stock Exchange. He also holds several directorships in certain subsidiaries of the Group. He graduated in Law from Corpus Christi College, University of Cambridge (the "University") in the United Kingdom and is a Scholar of the University. He is an associate member of the Chartered Institute of Management Accountants and a member of the 13th National Committee of the Chinese People's Political Consultative Conference and was a standing member of the 11th and 12th Liaoning Provincial Committee of the Chinese People's Political Consultative Conference. He was the winner of the Young Industrialist Awards of Hong Kong 2017. He has been engaged in the financial services, property development, OEM toys manufacturing, tourism and media businesses for more than fifteen years. He was appointed as a Director of the Company on 1 January 2016. He was appointed as the Co-Chief Executive Officer of the Company with effect from 16 May 2018. He is the son of Mr. Ng Hung Sang, an Executive Director, the Chairman and a controlling shareholder of the Company, and is the younger brother of Ms. Ng Yuk Mui Jessica, a Non-executive Director of the Company and Mr. Ng Yuk Fung Peter, a Non-executive Director of the Company.

NON-EXECUTIVE DIRECTORS

Ms. Ng Yuk Mui Jessica, aged 40, is a Non-executive Director of the Company. She is also an executive director, an executive vice chairman and the chief executive officer of South China Financial Holdings Limited, being listed on the Main Board of the Stock Exchange and an executive director and an executive vice chairman of South China Assets Holdings Limited, being listed on the GEM of the Stock Exchange. She is also the executive vice chairman of South China Media Limited. She holds a Bachelor degree in Law from King's College London, University of London in the United Kingdom, and was admitted to the Hong Kong Bar in 2006. She is an associate member of the Chartered Institute of Management Accountants and a member of the 12th Hebei Provincial Committee of the Chinese People's Political Consultative Conference. She was appointed as an Executive Director of the Company on 17 June 2002 and re-designated as a Non-executive Director of the Company with effect from 1 July 2005. She is the daughter of Mr. Ng Hung Sang, an Executive Director, the Chairman and a controlling shareholder of the Company, and is the elder sister of Mr. Ng Yuk Fung Peter, a Non-executive Director of the Company and Mr. Ng Yuk Yeung Paul, an Executive Director, the Executive Vice Chairman and the Co-Chief Executive Officer of the Company.

Mr. Ng Yuk Fung Peter, aged 38, is a Non-executive Director of the Company. He holds a Bachelor degree in Law from King's College London, University of London in the United Kingdom and is an associate member of the Chartered Institute of Management Accountants. He is also a member of Nanjing Municipal Committee of the Chinese People's Political Consultative Conference. He was appointed as an Executive Director of the Company on 17 June 2002 and re-designated as a Non-executive Director of the Company with effect from 16 May 2018. He is the son of Mr. Ng Hung Sang, an Executive Director, the Chairman and a controlling shareholder of the Company, and is the elder brother of Mr. Ng Yuk Yeung Paul, an Executive Director, an Executive Vice Chairman and the Co-Chief Executive Officer of the Company, and is the younger brother of Ms. Ng Yuk Mui Jessica, a Non-executive Director of the Company.

Mr. David Michael Norman, aged 62, is a Non-executive Director, a member of the Audit Committee and a member of the Remuneration and Nomination Committee of the Company. He is also an independent non-executive director of Guoco Group Limited, being listed on the Main Board of the Stock Exchange. He is a solicitor. He studied philosophy and psychology at Oxford University in the United Kingdom and was admitted as a solicitor in the United Kingdom in 1981 and in Hong Kong in 1984 respectively. He was appointed as a Director of the Company on 9 December 2014.

Ms. Li Yuen Yu Alice, aged 49, is a Non-executive Director and a member of the Remuneration and Nomination Committee of the Company. She is also a director of Cheng & Cheng Limited, Certified Public Accountants in Hong Kong. She received her Accounting degree from Monash University, Australia in 1994 and was admitted as a Certified Public Accountant in Australia in 1997 and in Hong Kong in 1998 respectively. She is a fellow member of the Taxation Institute of Hong Kong. She was appointed as a Director of the Company on 28 September 2004. She had been re-designated from an Independent Non-executive Director to a Non-executive Director and ceased to be the chairman and the member of the Audit Committee of the Company with effect from 21 December 2017.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chiu Sin Chun, aged 71, is an Independent Non-executive Director, a member of the Audit Committee and a member of the Remuneration and Nomination Committee of the Company. He has more than 30 years' experience in the newspaper and media industry. He was appointed as a Director of the Company on 20 August 2001.

Mr. Kam Yiu Shing Tony, aged 57, is an Independent Non-executive Director of the Company and was appointed as the chairman of the Audit Committee of the Company with effect from 21 December 2017. He is a qualified accountant since 1989 and has been practicing as a certified public accountant since 1993. He holds a master degree in business and administration from Monash University, Australia. He is also a fellow of the Hong Kong Institute of Certified Public Accountants and the Chartered Association of Certified Accountants, an associate of the Institute of Chartered Accountants in England and Wales and the Taxation Institute of Hong Kong, and at the same time registered as a Certified Tax Adviser. He was the President of the Society of Chinese Accountants and Auditors in 2016. He was appointed as a Director of the Company on 1 November 2017.

Mrs. Tse Wong Siu Yin Elizabeth, aged 61, is an Independent Non-executive Director, the chairman of the Remuneration and Nomination Committee and a member of the Audit Committee of the Company. She is also an independent non-executive director of South China Financial Holdings Limited, being listed on the Main Board of the Stock Exchange. She is the chairman of the Hong Kong Flower Retailers Association, the convenor of Youth Skills Competition in Floristry of Vocational Training Council, the technical advisor of the Environmental Services Industry of Employees Retraining Board, a member of the judge panel of Hong Kong Flower Show and a member of Small and Medium Enterprises Committee. She received an award of the Hundred Outstanding Women Entrepreneur in China in 2009. She holds a Bachelor degree in Science from the University of Western Ontario in Canada. She was appointed as a Director of the Company on 19 October 2004.

Mr. Yip Dicky Peter, J.P., aged 72, is an Independent Non-executive Director, a member of the Audit Committee and a member of the Remuneration and Nomination Committee of the Company. He is also an independent non-executive director of Sun Hung Kai Properties Limited and Ping An Insurance (Group) Company of China, Ltd., being listed on the Main Board of the Stock Exchange and an independent non-executive director of S. F. Holding Co., Ltd., being listed on the Shenzhen Stock Exchange. He had been an independent non-executive director of DSG International (Thailand) Public Company Limited, being listed on The Stock Exchange of Thailand. He joined The Hongkong and Shanghai Banking Corporation Limited ("HSBC") in Hong Kong in 1965 with working experiences in various sectors, serving in London, Hong Kong, San Francisco and the Mainland China. He has worked in a number of departments of HSBC, which included trade services, corporate banking, group consultancy service and regional training. His previous assignments prior to becoming the chief executive of China Business had been in personal financial services, covering jobs in marketing, card products, customer service and sales, with responsibilities over consumer business in Hong Kong. He was appointed as the chief executive of China business and based in Shanghai from January 2003 to April 2005. Meanwhile, he was also a director of the Bank of Shanghai, Ping An Insurance and Ping An Bank in China. He became a general manager of HSBC in April 2005 until his retirement from HSBC on 30 June 2012. He also served as the executive vice president of Bank of Communications Co., Ltd. since April 2005 and resigned from such office with effect from 1 July 2012.

Mr. Yip joined the Institute of International Finance in July 2012 and retired in June 2015 as chief representative for the Asia-Pacific Region. He is an elected associate member of the Chartered Institute of Bankers, London and a Certified Financial Planner and an honorary adviser of the Institute of Financial Planners of Hong Kong. He was educated in Hong Kong with an MBA from The University of Hong Kong. He received the Ten Outstanding Young Persons Award in 1984 for his contribution to the banking industry and the community in Hong Kong. He was awarded the MBE by the British Government in 1984. In 1999, he was appointed as Unofficial Justice of Peace in Hong Kong. In 2000, he was awarded the Bronze Bauhinia Star by the Government of the Hong Kong Special Administrative Region. In June 2013, he was appointed as a member of Shanghai Committee of the Chinese People's Political Consultative Conference for a second term.

Mr. Yip is active in community and youth activities in Hong Kong and is a member of a number of service organisations such as Hong Kong Committee for United Nations Children Fund and the Hong Kong Air Cadet Corps. He was appointed as a Director of the Company on 10 December 2012.

Directors' Report

The Directors are pleased to present their annual report together with the audited financial statements for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The Group is principally engaged in the trading and manufacturing of toys, shoes, electronic toys and leather products, property investment and development, agriculture, forestry. The principal activities of the principal subsidiaries are set out in note 52 to the financial statements respectively.

BUSINESS REVIEW

A review of the business of the Group during the year under review, a discussion and analysis of these activities as required by Schedule 5 to Hong Kong Companies Ordinance, including a discussion of the principal risks and uncertainties facing the Group and an indication of likely future developments in the Group's business, are provided in the Management Discussion and Analysis set out on pages 3 to 14 of this annual report. This discussion forms part of this Directors' Report.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Board has overall responsibility for the Group's environmental, social and governance ("ESG") strategy and reporting. The Board is responsible for the Group's ESG risk management and internal control systems to ensure that the ESG strategies and reporting requirements are met.

In addition, discussion on the Group's environmental policies and performance are contained in the ESG Report on pages 50 to 66 of this annual report.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2018 and the financial position of the Group at that date are set out in the financial statements on pages 74 to 205 of this annual report.

No interim dividend was paid by the Company (2017: Nil). The Board does not recommend the payment of a final dividend for the year ended 31 December 2018 (2017: Nil).

DIVIDEND POLICY

The Company has adopted a dividend policy (the "Dividend Policy"), pursuant to which the Company may declare and distribute dividends to the shareholders of the Company (the "Shareholders").

Objectives

The Dividend Policy sets out the guidelines for the Board of the Company to determine (i) whether dividends are to be declared and paid; and (ii) the amount of dividend to be paid to the shareholders of the Company.

It is the policy of the Company to distribute its net profits by way of dividends to its shareholders after retaining adequate reserves for future growth as return to its shareholders' investment.

Basic Criteria

In deciding to propose a dividend and in determining the dividend amount, the Board shall take into account the actual and expected financial results of the Group, business performance and strategies, financial and economic factors, capital commitments, liquidity position and any other factors that the Board considers appropriate.

Subject to the conditions and factors set out above, dividends may be proposed and/or declared by the Board for a financial year or period as interim dividend, final dividend, special dividend and any distribution of net profits that the Board considers appropriate.

Payment of dividend by the Company is also subject to any criteria and restrictions under the Cayman Islands laws and the Company's Articles of Association (the "Articles").

Form of Dividend

The Company may declare and pay dividends by way of cash or scrip or by other means that the Board considers appropriate.

Approval of Dividend

The Board may from time to time determine and pay to the Company's shareholders such interim dividends as it considers appropriate.

The Board may recommend the payment of final dividends which are required to be approved by shareholders of the Company in general meetings.

Approval of the Dividend Policy

The Dividend Policy has been reviewed by the audit committee (the "Audit Committee") of the Company and approved by the Board. The Dividend Policy shall be reviewed by the Audit Committee and any subsequent amendment of the Dividend Policy shall be submitted to the Board for approval.

DISTRIBUTABLE RESERVES

At 31 December 2018, the Company had reserves available for distribution to the shareholders amounted to HK$1,519,090,000 (2017: HK$1,627,321,000).

SUMMARY OF FINANCIAL INFORMATION

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements and restated/reclassified as appropriate, is set out on page 206 of this annual report.

SHARE CAPITAL AND EQUITY-LINKED AGREEMENT

In addition to the below mentioned transactions, details of movements in the ordinary shares, share options, share awards and redeemable convertible preference shares of the Company during the year are set out in notes 39 and 40 to the financial statements. Save as the issued 390,691,131 redeemable convertible preference shares (the "CPSs"), if fully converted, 781,382,262 ordinary shares will be issuable with proceeds receivable of HK$312.6 million, details are disclosed in note 39 to the financial statements and the share options in the section headed "Share Option Schemes" below, there was no other equity-linked agreement subsisting at the end of the year nor entered into by the Company during the year.

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Articles or the laws of the Cayman Islands which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries has purchased, sold nor redeemed any of the Company's listed securities during the year ended 31 December 2018.

MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers, respectively, during the year ended 31 December 2018 is as follows:

	Percentage of the Group's total	
	Sales	**Purchases**
The largest customer	34.1%	N/A
Five largest customers in aggregate	71.5%	N/A
The largest supplier	N/A	4.1%
Five largest suppliers in aggregate	N/A	15.8%

None of the Directors or any of their associates or any shareholders of the Company (which, to the knowledge of the Directors, owns more than 5% of the number of issued shares of the Company) had any beneficial interest in the major customers and suppliers noted above.

DIRECTORS

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

Executive Directors

Mr. Ng Hung Sang (*Chairman*)
Ms. Cheung Choi Ngor [1] (*Vice Chairman and Co-Chief Executive Officer*)
Mr. Richard Howard Gorges (*Vice Chairman*)
Mr. Ng Yuk Yeung Paul [2] (*Executive Vice Chairman and Co-Chief Executive Officer*)

Non-executive Directors

Ms. Ng Yuk Mui Jessica
Mr. Ng Yuk Fung Peter [3]
Mr. David Michael Norman
Ms. Li Yuen Yu Alice

Independent Non-executive Directors

Mr. Chiu Sin Chun
Mr. Kam Yiu Shing Tony
Mrs. Tse Wong Siu Yin Elizabeth
Mr. Yip Dicky Peter, J.P.

Notes:

1. Ms. Cheung Choi Ngor was re-designated from Chief Executive Officer to Co-Chief Executive Officer of the Company on 16 May 2018.

2. Mr. Ng Yuk Yeung Paul was appointed as Co-Chief Executive Officer of the Company on 16 May 2018.

3. Mr. Ng Yuk Fung Peter was re-designated from an Executive Director to a Non-executive Director and had ceased to be an Executive Vice Chairman and a member of the executive committee of the Company with effect from 16 May 2018.

In accordance with Article 116 of the Articles, Mr. Ng Hung Sang, Ms. Cheung Choi Ngor, Mr. Ng Yuk Yeung Paul and Mr. Ng Yuk Fung Peter will retire from office by retirement and rotation and be eligible to offer themselves for re-election at the forthcoming annual general meeting (the "AGM") of the Company. Save as disclosed, all other remaining Directors continue in office.

CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received an annual confirmation of independence pursuant to Rule 3.13 of the Rules Governing the Listing of the Securities on the Stock Exchange (the "Listing Rules") from each of the Independent Non-executive Directors, namely Mr. Chiu Sin Chun, Mr. Kam Yiu Shing Tony, Mrs. Tse Wong Siu Yin Elizabeth and Mr. Yip Dicky Peter, J.P. and considers all of the Independent Non-executive Directors are independent during their servicing period.

DIRECTORS' BIOGRAPHIES

Biographical details of the Directors are set out on pages 15 to 18 of this annual report.

DIRECTORS' SERVICE CONTRACTS

No directors proposed for re-election at the forthcoming annual general meeting has an unexpired service contract with the Company and/or its subsidiaries which is not determinable by the relevant employer within one year without payment of compensation (other than statutory compensation).

DIRECTORS' REMUNERATION

The remuneration payable to executive directors are determined by the Remuneration and Nomination Committee with reference to the prevailing market practice, the Company's remuneration policy, the respective Directors' duties and responsibilities and their contributions to the Group. The Board considers and, where it thinks fit, approves the remuneration of the non-executive directors as recommended by the Remuneration and Nomination Committee based on the abovementioned factors. No Director shall be involved in the decision of his own remuneration.

Details of Directors' remuneration during the year are set out in note 8 to the financial statements.

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

As at 31 December 2018, the interests and short positions of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance, Chapter 571 of the laws of Hong Kong (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules were as follows:

Long positions in ordinary shares of the Company

	Number of ordinary shares held					Approximate percentage of shareholding to total issued ordinary shares
Name of Director(s)	**Personal interests** *(Note 1)*	**Family interests**	**Corporate interests**	**Derivative interests (share options)**	**Total number of shares held**	
Mr. Ng Hung Sang ("Mr. Ng")	650,603,514	613,214,065 *(Note 2)*	7,097,670,709 *(Note 3)*	–	8,361,488,288	63.24%
Ms. Cheung Choi Ngor ("Ms. Cheung")	50,000,000	–	–	–	50,000,000	0.38%
Mr. Ng Yuk Yeung Paul ("Mr. Paul Ng")	171,989,238	–	–	–	171,989,238	1.30%
Ms. Ng Yuk Mui Jessica ("Ms. Jessica Ng")	170,700,000	–	–	–	170,700,000	1.29%
Mr. Ng Yuk Fung Peter ("Mr. Peter Ng")	652,740,810	–	–	–	652,740,810	4.94%

Long positions in ordinary shares of associated corporation

Name	Name of associated corporation	Number of ordinary shares held by controlled corporation	Approximate percentage of shareholding to total issued ordinary shares
Mr. Ng	Prime Prospects Limited ("Prime Prospects") (*Note 4*)	30	30%

Notes:

1. The shares are registered under the names of the directors who are the beneficial shareholders.

2. The spouse of Mr. Ng is the beneficial shareholder.

3. The 7,097,670,709 shares of the Company held by Mr. Ng through controlled corporations included 2,124,792,202 shares held by Fung Shing Group Limited ("Fung Shing"), 2,020,984,246 shares held by Parkfield Holdings Limited ("Parkfield"), 89,410,210 shares held by Ronastar Investments Limited ("Ronastar"), 1,344,706,920 shares held by Earntrade Investments Limited ("Earntrade"), 1,273,122,098 shares held by Bannock Investment Limited ("Bannock"), 212,405,565 shares held by Crystal Hub Limited ("Crystal Hub") and 32,249,468 shares held by Green Orient Investments Limited ("Green Orient"). Fung Shing, Parkfield and Ronastar all are wholly-owned by Mr. Ng. Bannock is a wholly-owned subsidiary of Earntrade which is owned as to 60% by Mr. Ng, 20% by Mr. Richard Howard Gorges ("Mr. Gorges") and 20% by Ms. Cheung. Crystal Hub is a direct wholly-owned subsidiary of South China Assets Holdings Limited ("SCAH"), which, in turn, is 64.92% beneficially owned by Mr. Ng. Green Orient is an indirect wholly-owned subsidiary of the Company. As such, Mr. Ng was deemed to have interest in the said 212,405,565 shares held by Crystal Hub, 32,249,468 shares held by Green Orient and the 2,617,829,018 shares held by Bannock and Earntrade.

4. Prime Prospects is a 70% owned subsidiary of the Company.

Apart from the foregoing, none of the Directors and chief executives of the Company or any of their spouses or children under eighteen years of age had interests or short positions in the shares, underlying shares or debentures of the Company, or any of its holding company, subsidiaries or other associated corporations, as recorded in the register required to be kept under section 352 of the SFO or as otherwise notified to the Company pursuant to the Model Code, at 31 December 2018.

SHARE OPTION SCHEME

The Company adopted a share option scheme in June 2012 ("2012 Share Option Scheme") for the purpose of providing incentives and rewards to eligible participants, who contribute to the success of the Group's operations, and retaining such participants for their continuing support to the Group. The share options granted under the above scheme are unlisted. Further details of the 2012 Share Option Scheme are disclosed in note 40 to the financial statements.

No share option has been granted under the 2012 Share Option Scheme during the year ended 31 December 2018. During the year ended 31 December 2018, 33,886,368 share options were lapsed due to the resignation of certain employees. The movements in the number of share options under the 2012 Share Option Scheme during the year ended 31 December 2018 are as follows:

	Number of share options						
Name or category of participant	**Outstanding as at 1 January 2018**	**Granted/ (Lapsed) during the year**	**Outstanding as at 31 December 2018**	**Date of grant of share options(1)**	**Exercise period of share options**	**Number of ordinary shares issuable upon the exercise of share options**	**Exercise price per share(2)** *HK$*
Employees							
In aggregate	7,750,000	(1,500,000)	6,250,000	10/07/2015	10/07/2016–09/07/2025	15,880,000	0.51
	7,750,000	(1,500,000)	6,250,000	10/07/2015	10/07/2017–09/07/2025	15,880,000	0.51
	7,250,000	(1,000,000)	6,250,000	10/07/2015	10/07/2018–09/07/2025	15,880,000	0.51
	8,965,000	(8,965,000)	–	20/10/2015	20/10/2017–19/10/2025	–	0.51
	8,965,000	(8,965,000)	–	20/10/2015	20/10/2018–19/10/2025	–	0.51
	11,956,368	(11,956,368)	–	20/10/2015	20/10/2019–19/10/2025	–	0.51
Total	**52,636,368**	**(33,886,368)**	**18,750,000**			**47,640,000**	

Notes:

(1) All share options granted are subject to a vesting period and exercisable in the following manner:

From the date of grant of share options	**Exercisable percentage**
Within 12 months	Nil
13th month–24th month	not more than 33 1/3%
25th month–36th month	not more than 66 2/3%
37th month–120th month	100%

(2) The subscription price of the share option is subject to adjustment in the core of rights or bonus issues, or other alteration in the capital structure of the Company.

EMPLOYEES' SHARE AWARD SCHEME

On 18 March 2011, the Company adopted the Employees' Share Award Scheme (the "Share Award Scheme") whereby the Company may grant share awards to selected employees in recognition of their contributions to the Group and as incentive to retain them to support the operations and ongoing development of the Group and attract suitable personnel for the Group's further development. Pursuant to the terms and conditions of the Share Award Scheme, the Company shall settle a sum up to and not exceeding HK$60 million for the purchase of shares in the Company and/or SCAH from the market. Such shares shall form part of the capital of the trust set up for the Share Award Scheme. The Board may, from time to time, select employees for participation in the Share Award Scheme and cause to be paid an amount to the trustee from the Company's resources for the purpose of purchase of shares as referred to in the above. Details of the Share Award Scheme are set out in note 39 to the financial statements.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section headed "Share Option Schemes" above, at no time during the year was the Company or any of its subsidiaries or fellow subsidiaries, a party to any arrangements to enable the Directors 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 or the chief executives or any of their spouses or children under the age of 18, was granted any right to subscribe for any equity or debt securities of the Company or any other body corporate nor had exercised any such right.

RETIREMENT SCHEMES

The Group operates a defined benefit occupational retirement scheme and a mandatory provident fund scheme. The employees employed by the PRC subsidiaries are members of the state-managed retirement benefit schemes operated by the PRC government. The PRC subsidiaries are required to contribute a certain percentage of their payroll to the retirement benefit schemes to fund the benefits. Particulars of these retirement schemes are set out in note 2.4(z)(i) to the financial statements.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Details of the transactions during the year between the Group and connected persons (as defined in the Listing Rules) in which a Director has beneficial interest are set out in the section headed "Continuing Connected Transactions" of this annual report and related party transactions as disclosed in note 46 to the financial statements.

Save as disclosed above, no transaction, arrangement or contract of significance to the business of the Group to which the Company, or any of its subsidiaries or fellow subsidiaries was a party and in which a Director or any connected entity thereof had a material interest, whether directly or indirectly, subsisted at the end or during the year.

MANAGEMENT CONTRACT

The Company has not entered into any contract by which a person undertakes the management and administration of the whole or any substantial part of the business of the Company and there was no such contract subsisted at any time during the year.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2018, the interests and short positions of every persons, other than the Director or chief executive of the Company, in the shares and underlying shares of the Company, being 5% or more of the Company's issued share capital, as recorded in the register kept by the Company under Section 336 of the SFO were as follows:

	Number of ordinary shares held				Approximate percentage of shareholding to total issued ordinary shares
Name	**Beneficial interests**	**Family interests**	**Corporate interests**	**Total number of ordinary shares held**	
Earntrade	1,344,706,920	–	1,273,122,098 *(Note 1)*	2,617,829,018	19.80%
Bannock	1,273,122,098 *(Note 1)*	–	–	1,273,122,098	9.63%
Fung Shing	2,124,792,202	–	–	2,124,792,202	16.07%
Parkfield	2,020,984,246	–	–	2,020,984,246	15.29%
Ms. Ng Lai King Pamela ("Ms. Ng")	613,214,065	7,748,274,223 *(Note 2)*	–	8,361,488,288	63.24%

Notes:

1. Bannock is a wholly-owned subsidiary of Earntrade. The 2,617,829,018 shares of the Company held by Earntrade included 1,273,122,098 shares held by Bannock directly.

2. Ms. Ng, who held 613,214,065 shares of the Company directly, is the spouse of Mr. Ng, the Chairman and an Executive Director. By virtue of the SFO, Ms. Ng was deemed to be interested in the 650,603,514 shares and 7,097,670,709 shares held by Mr. Ng directly and indirectly through controlled corporations, respectively, as disclosed in the section headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" in the above.

Apart from the foregoing, as at 31 December 2018, no person, other than the Directors and chief executive of the Company, whose interests are set out in the section headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" in the above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to section 336 of the SFO.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

The Company and SCAH, a company listed on the GEM of the Stock Exchange, have certain common directors. The principal activities of SCAH include property investment and development which is one of the principal activities of the Group.

Mr. Ng, Ms. Cheung and Mr. Gorges, all being Executive Directors, are also the executive directors of SCAH. Mr. Paul Ng is an Executive Director and is also a non-executive director of SCAH. Ms. Jessica Ng is a Non-executive Director and is also an executive director of SCAH.

Mr. Ng is also the chairman of the board and controlling shareholder of SCAH. Mr. Gorges and Ms. Cheung are the directors and substantial shareholders of a controlled corporation of Mr. Ng which holds 10.29% direct interest in SCAH and 9.74% indirect interest in SCAH through its direct wholly-owned subsidiary. Mr. Ng together with his associates aggregately hold 64.92% interest in SCAH.

The Group mainly focuses on the medium to large scale property investment and development projects while SCAH seeks to undertake property development projects in smaller size and diversifies into the financial services businesses.

The abovementioned common directors declare their interests in competing business and abstain from voting in transactions in which the Company and SCAH compete or is likely to compete with each other and, therefore, do not control the Board as far as transaction in relation to competing business is concerned. As such, the Board is independent from the board of SCAH, which is consist of eight members to the best of the knowledge of the Directors and the Group is capable of carrying on its businesses independently of, and at arm's length from, the businesses of SCAH. Given the difference in business focus as referred to in the preceding paragraph, the competition between the businesses of the Company and SCAH is considered to be relatively remote.

CHANGES IN INFORMATION IN RESPECT OF DIRECTORS

In accordance with Rule 13.51B(1) of the Listing Rules, the changes in information required to be disclosed pursuant to paragraphs (a) to (e) and (g) of Rule 13.51(2) of the Listing Rules during the course of the Directors' terms of office for the period from the date of publication of the Company's latest interim report up to the date of this annual report are set out below:

Ms. Jessica Ng was appointed as chief executive officer of South China Financial Holdings Limited on 17 October 2018.

INDEMNITY OF DIRECTORS

Pursuant to the Articles, every Director shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities incurred or sustained by him as a Director in defending any proceedings in which judgment is given in his favour, or in which he is acquitted. The Company has taken out directors' and officers' liability insurance to protect the Directors against potential costs and liabilities arising from the claims brought against them, if any.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed public float under the Listing Rules as at the date of this annual report.

CONTINUING CONNECTED TRANSACTIONS

The following transactions between certain connected persons (as defined in the Listing Rules) and the Company have been entered into and/or are ongoing for which the relevant announcements, if required under Chapter 14A of the Listing Rules, had been made by the Company.

(1) On 24 March 2017, a tenancy agreement was entered into by First City Limited, an indirect wholly-owned subsidiary of the Company, as the landlord with Hong Kong Four Seas Tours Limited, a company indirectly wholly-owned by Mr. Ng, as the tenant for the premises at 1/F, On Lok Yuen Building, 25, 27 and 27A Des Voeux Road Central, Hong Kong was renewed at a monthly rental of HK$133,000 for two years from 1 April 2017 to 31 March 2019. Details of the above transaction were disclosed in the announcement of the Company dated 24 March 2017.

(2) On 24 March 2017, a tenancy agreement was entered into by Glorious Dragon Investments Limited, an indirect wholly-owned subsidiary of the Company, as the landlord with Four Seas Tours Limited, a company indirectly non-wholly owned by Mr. Ng, as the tenant for the premises at 2/F, On Lok Yuen Building, 25, 27 and 27A Des Voeux Road Central, Hong Kong was renewed at a monthly rental of HK$129,504 for two years from 1 April 2017 to 31 March 2019. Details of the above transaction were disclosed in the announcement of the Company dated 24 March 2017.

(3) On 29 December 2017, Copthorne Holdings Corp., an indirect wholly-owned subsidiary of the Company, as the landlord entered into two tenancy agreements with South China Media Management Limited, a company indirectly wholly-owned by Mr. Ng, as the tenant for the premises at Units A and B on 3rd Floor of Wah Shing Centre, 5 Fung Yip Street, Chai Wan, Hong Kong at a monthly rental HK$75,816 and Unit B on 12th Floor of Wah Shing Centre, 5 Fung Yip Street, Chai Wan, Hong Kong at a monthly rental HK$29,250 respectively. Both tenancy agreements started from 1 January 2018 to 31 December 2019 for a term of two years. Details of the above transactions were disclosed in the announcement of the Company dated 29 December 2017.

As at 31 December 2018, Mr. Ng, the chairman, an executive director and the controlling shareholder of the Company, through interests in controlled corporations owned as to 63.24% in the Company.

One of the principal activities of the Group is engaged in property investment and the above rental agreements provided the Group with stable rental income.

The above continuing connected transactions have been reviewed by the Independent Non-executive Directors of the Company who have confirmed that the transactions have been entered into:

(1) in the ordinary and usual course of business of the Group;

(2) on normal commercial terms or better; and

(3) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interest of the shareholders of the Company as a whole.

The Company's auditors was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued an unqualified letter containing the findings and conclusions in respect of the continuing connected transactions disclosed above in accordance with Rule 14A.56 of the Listing Rules.

Certain related party transactions set out in note 46 to the financial statements constitute connected transactions or continuing connected transactions for which the disclosure requirements under the Listing Rules have been complied with.

CORPORATE GOVERNANCE

The corporate governance principles and practices are set out in the Corporate Governance Report on pages 32 to 49 of this annual report.

AUDITORS

KPMG will retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting of the Company.

On behalf of the Board

Ng Hung Sang
Chairman

Hong Kong, 26 March 2019

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Company is committed to the establishment of good corporate governance practices and procedures. The corporate governance principles of the Company emphasize accountability and transparency to the shareholders of the Company (the "Shareholders"). Periodic review will be made to the corporate governance practices to comply with the regulatory requirements.

CORPORATE GOVERNANCE CODE

The Company had complied with all the code provisions as set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") throughout the year ended 31 December 2018 except that Mr. Ng Hung Sang ("Mr. Ng"), the chairman of the Board and an Executive Director, Ms. Cheung Choi Ngor ("Ms. Cheung"), an Executive Director, Mr. Ng Yuk Fung Peter ("Mr. Peter Ng") and Mr. David Michael Norman, both are Non-executive Directors, were unable to attend the annual general meeting of the Company held on 14 June 2018, which deviated from code provision E.1.2 and A.6.7 of the CG Code as they had other important business engagements.

SECURITIES TRANSACTIONS BY THE DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 to the Listing Rules as its code of conduct regarding the directors' securities transactions. In addition, the Board has established similar guidelines for relevant employees who are likely to possess inside information in relation to the Group or its securities.

Specific enquiry has been made of all the Directors and all Directors have confirmed that they have complied with the required standards set out in the Model Code throughout the year ended 31 December 2018.

CORPORATE GOVERNANCE FUNCTIONS

The Board delegated the responsibilities of the corporate governance functions to the audit committee of the Company (the "Audit Committee") for compliance with the requirements of the CG Code. Under the terms of reference of the Audit Committee, it is responsible for carrying out at least the following:

(a) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;

(b) to review and monitor the training and continuous professional development of the Directors and senior management;

(c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and the Directors; and

(e) to review the Company's compliance with the CG Code and disclosure in this Corporate Governance Report.

During the year ended 31 December 2018 and up to the date of this annual report, the Audit Committee has reviewed and performed the aforesaid corporate governance functions.

BOARD OF DIRECTORS

The Board is responsible for the overall leadership and control of the Group, and is collectively responsible for promoting the Group's success by directing and supervising its affairs. In addition, the Board should take decisions objectively in the best interests of the Group. Day-to-day management of the business of the Group including implementation of strategies has been delegated to the executive committee of the Company (the "Executive Committee") which comprises all Executive Directors. The Executive Committee reports its work and business decisions to the Board periodically. In addition to the Executive Committee, the Audit Committee and the remuneration and nomination committee (the "Remuneration and Nomination Committee") have been established with their respective specific written terms of reference.

The chairman of the Board (the "Chairman") has encouraged all Directors to make a full and active contribution to the Board's affairs and take the lead to ensure that it acts in the best interests of the Group. The Chairman has also encouraged Directors with different views to voice their concerns, allow sufficient time for discussion of issues and ensure that the Board decisions fairly reflect the Board's consensus.

Every Director was given sufficient time and attention to the Group's affairs during the year ended 31 December 2018.

The Company has arranged appropriate directors' and officers' liability insurance cover in respect of legal action against the Directors.

During the year under review, the Board was provided with (i) sufficient explanation and information to enable it to make an informed assessment of financial and other information put before it for approval, and (ii) monthly updates giving a balanced and understandable assessment of the Group's performance, position and prospects in sufficient detail.

BOARD COMPOSITION

The composition of the Board during the year ended 31 December 2018 and up to the date of this annual report is as follows:

Executive Directors

Mr. Ng Hung Sang (*Chairman*)
Ms. Cheung Choi Ngor (*Vice Chairman and Co-Chief Executive Officer*)
Mr. Richard Howard Gorges (*Vice Chairman*)
Mr. Ng Yuk Yeung Paul (*Executive Vice Chairman and Co-Chief Executive Officer*)

Non-executive Directors

Ms. Ng Yuk Mui Jessica
Mr. Ng Yuk Fung Peter
Mr. David Michael Norman
Ms. Li Yuen Yu Alice

Independent Non-executive Directors

Mr. Chiu Sin Chun
Mr. Kam Yiu Shing Tony
Mrs. Tse Wong Siu Yin Elizabeth
Mr. Yip Dicky Peter, J.P.

On 16 May 2018, Mr. Peter Ng was re-designated from an Executive Director to a Non-executive Director, Ms. Cheung was re-designated from Chief Executive Officer to Co-Chief Executive Officer of the Company and Mr. Ng Yuk Yeung Paul ("Mr. Paul Ng") was appointed as Co-Chief Executive Officer of the Company.

The biographical details of the Directors, and the relevant relationships amongst them, if any, are set out in the section headed "Directors' Biographical Details" on pages 15 to 18 in this annual report. The Company has maintained on the websites of the Stock Exchange and the Company (www.scholding.com) an updated list of Directors identifying their roles and functions and whether they are independent non-executive directors. Independent Non-executive Directors are also identified as such in all corporate communications that disclose the names of directors of the Company.

The Board composition is reviewed regularly to ensure that it has a balance of skills, experience and diversity of perspectives appropriate to the requirements of the businesses of the Group. A balanced composition of Executive Directors and Non-executive Directors (including Independent Non-executive Directors) is maintained to enable the Board to exercise independent judgement effectively.

Chairman and Chief Executive

Mr. Ng served as the Chairman and is responsible for providing leadership and management of the Board. With effect from 16 May 2018, Mr. Paul Ng was appointed as Co-Chief Executive Officer of the Company and Ms. Cheung was re-designated from Chief Executive Officer to Co-Chief Executive Officer of the Company, Ms. Cheung and Mr. Paul Ng both have taken up the role of chief executive, who are responsible for the day-to-day management of the business of the Group.

The roles of chairman and chief executive are separate and are clearly defined. Such roles are performed by different individuals with a view to reinforcing independence and accountability. Key and important decisions are fully discussed at board meetings.

The Chairman has delegated the responsibility for drawing up the agenda for each board meeting to the Company Secretary. With the assistance of the Executive Directors and the Company Secretary, the Chairman ensures that all Directors are properly briefed on issues arising at Board meetings and have received adequate, clear, complete and reliable information in a timely manner.

Board Diversity Policy

The Company is committed to equality of opportunity and does not discriminate on the grounds of race, gender, age, disability, nationality or any other factors. It also recognizes and embraces the benefits of diversity in Board members. The Company has adopted a board diversity policy (the "Board Diversity Policy") since August 2013. Under the Board Diversity Policy, a range of diversity perspectives including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service are taken into account when considering the nomination of candidates for directorship, and all Board appointments are based on meritocracy.

Candidates are considered against objective criteria, having due regard for the benefits of diversity on the Board and the ultimate decision is based on merit and contribution that the selected candidates will bring to the Board. The Remuneration and Nomination Committee monitors the implementation of the Board Diversity Policy and review the same as appropriate. The Remuneration and Nomination Committee will discuss any revisions that may be required, and recommend any such revisions to the Board for consideration and approval.

The appointment of Directors is recommended by the Remuneration and Nomination Committee and approved by the Board based on the formal written procedures and policy for the appointment of new directors. When selecting potential candidates for directorship, their skills, experience, expertise, devotion of time and conflicts of interests are the key factors to consider.

Board and Board Committee Meetings

The Board meets at least four (4) times a year. At least fourteen (14) days' notice is given to all Directors for each regular Board meeting. All Directors are given the opportunity to include matters for discussion in the agenda. Agenda and Board papers are sent to all Directors at least three (3) days before each regular Board meeting. Directors can attend meetings in person or through other means of electronic communication in accordance with the Articles of Association of the Company (the "Articles").

The Company Secretary ensures that the procedures and all applicable rules and regulations are complied with. Minutes of Board meetings and meetings of Board committees have recorded in sufficient detail the matters considered and decisions reached, including any concerns raised or dissenting views expressed by the Directors. Draft and final version of minutes are circulated to the Directors for comments and records respectively within a reasonable time after each Board meeting is held.

Minutes of Board meetings and meetings of Board committees are kept by the Company Secretary and are available for inspection at any time on reasonable notice by any Director.

If a matter to be considered by the Board involves conflict of interests of any substantial or controlling shareholder of the Company or a Director and if the Board considers that the matter is material, it would be dealt with by a physical meeting rather than a written resolution of the Directors.

The Board ensures that there are sufficient Independent Non-executive Directors (who, and whose close associates, have no material interests in the transaction) participating in discussing and voting on the resolution for the transaction at the Board meeting.

Attendances of Meetings

Four (4) Board meetings, three (3) Audit Committee meetings, one (1) Remuneration and Nomination Committee meeting and one (1) annual general meeting ("AGM") were held during the year ended 31 December 2018. The attendances records of all Directors for these meetings are set out below:

	Number of Meetings attended/Eligible to attend			
Name of Directors	**Board**	**Audit Committee**	**Remuneration and Nomination Committee**	**AGM**
Executive Directors				
Mr. Ng Hung Sang	3/4	–	–	0/1
Ms. Cheung Choi Ngor	3/4	–	–	0/1
Mr. Richard Howard Gorges	4/4	–	–	1/1
Mr. Ng Yuk Yeung Paul	3/4	–	–	1/1
Non-executive Directors				
Ms. Ng Yuk Mui Jessica	4/4	–	–	1/1
Mr. Ng Yuk Fung Peter (Note)	3/4	–	–	0/1
Mr. David Michael Norman	4/4	3/3	1/1	0/1
Ms. Li Yuen Yu Alice	4/4	–	1/1	1/1
Independent Non-executive Directors				
Mr. Chiu Sin Chun	4/4	3/3	1/1	1/1
Mr. Kam Yiu Shing Tony	3/4	3/3	–	1/1
Mrs. Tse Wong Siu Yin Elizabeth	4/4	3/3	1/1	1/1
Mr. Yip Dicky Peter, J.P.	3/4	3/3	1/1	1/1

Note: Mr. Peter Ng was re-designated from an Executive Director to a Non-executive Director with effect from 16 May 2018.

Access to Information

The Directors may seek independent professional advice in appropriate circumstance, at the Company's expense. The Company will, upon request, provide separate independent professional advice to Directors to assist them to discharge their duties to the Company.

The Board or Board committee is supplied with relevant information by the Company's senior management pertaining to matters to be brought before the Board or Board committee for decision as well as reports relating to the operational and financial performance of the Group before the Board or Board committee meeting. All such information supplied is complete and reliable. In the event that a Director does not rely purely on information provided voluntarily by the Company's senior management, such Director has the right to separately and independently access to the Company's senior management to make further enquiries where necessary.

Directors are entitled to have access to Board papers and related materials in a form and quality sufficient to enable the Board to make informed decisions on matters placed before it. A prompt and full response to a Director's enquiries is given if possible.

Appointments and re-election of Directors

All Directors (including Non-executive Directors) are subject to retirement by rotation once every three (3) years in accordance with the Articles.

Pursuant to the Articles, all newly appointed Directors (including Non-executive Directors) shall hold office only until the next following AGM after his appointment (in the case of filling a casual vacancy) or until the next following AGM (in the case of an addition to the Board), and shall be eligible for re-election at that meeting.

Independent Non-executive Directors

During the year ended 31 December 2018, the Board all the time met the requirements of the Listing Rules of having at least three (3) Independent Non-executive Directors, and the number of which representing at least one-third of the Board, with at least one (1) of them possessing appropriate professional qualifications or related financial management expertise as required under Rule 3.10(2) of the Listing Rules. The views of the Independent Non-executive Directors carry weight in the Board's decisions, and their participation helps the Board exercise independent judgment, make decisions and act objectively in the interests of the Company and the Shareholders as a whole.

The Company has received from each Independent Non-executive Director a written annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all Independent Non-executive Directors are independent pursuant to Rule 3.13 of the Listing Rules.

During the year under review, the Chairman met once with the Independent Non-executive Directors without the presence of other Directors.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board has the overall responsibility for overseeing and maintaining a sound and effective risk management and internal control systems and reviewing the effectiveness of the same. The Board assesses the effectiveness of the risk management and internal control systems through the ongoing reviews performed by the Audit Committee, executive management and both internal and external auditors. Taking into account the views of the Audit Committee, the Internal Audit Department formulates audit plan periodically and reports its findings and recommendations to the Audit Committee which, in turn, reports to the Board on the effectiveness of the risk management and internal control systems. The audit plan covers key financial, operational and compliance controls of the major business units on a rotational basis. The scope of and time budgeted for an audit assignment normally depend on the assessed risk level. The Audit Committee meets with the internal auditor and external auditor at least twice a year. During the year, the Internal Audit Department reviewed the leasing activities in Tianjin, the trade payments and the general expenditures and payments cycles of the toy manufacturing business, as well as the general expenditures and payments cycles of the head office. The results, including assessment of adequacy and effectiveness of controls, were addressed in the internal audit report to the Audit Committee and the Board for their review and approval.

The risk management and internal control systems aim at safeguarding assets from inappropriate use, ensuring the maintenance of proper accounting records, compliance with the applicable rules and regulations and confinement of the risks to the Group's acceptance level. The management is primarily responsible for the design, implementation and maintenance of the risk management and internal control systems which are designed to provide reasonable but not absolute assurance against misstatement or loss, and to manage risks of failure in the Group's operational systems.

The Internal Audit Department will also conduct ad hoc review in light of the concerns expressed by the management or the Audit Committee from time to time, if any.

With the support of the relevant business units, the Board identifies and assesses key existing or emerging risks to which the Group is facing, and formulates strategies and measures to mitigate the relevant risk exposures. A risk register is prepared to facilitate the management of key risks of the Group. For each key risk identified, the risk register records the risk exposure estimation, current risk mitigation measures and further management actions to be taken to better control the risks. The Board has reviewed the Group's risk management and internal control systems for the year ended 31 December 2018. The review included considering the risk register and risk management and internal control evaluations conducted by the Audit Committee, the management and the internal and external auditors.

PROCEDURE AND INTERNAL CONTROLS FOR THE HANDLING AND DISSEMINATION OF INSIDE INFORMATION

The Group acknowledges its responsibilities under the Securities and Futures Ordinance, Chapter 571 of the laws of Hong Kong and the Listing Rules and the overriding principle that inside information should be announced as soon as reasonably practical when it is the subject of a decision. The procedures and internal controls for handling and dissemination of inside information are as follows:

1. The Group conducts its affairs with close regard to the disclosure requirement under the Listing Rules as well as the "Guidelines on Disclosure of Inside Information" published by the Securities and Futures Commission of Hong Kong in June 2012 and the provisions set forth in the Policy on Disclosure of Inside Information of the Company.

2. The Group has implemented and disclosed its policy on fair disclosure by pursuing broad, non-exclusive distribution of information to the public through channels such as financial reporting, public announcements and the Company's website.

3. The Group has strictly prohibited the unauthorized use of confidential or inside information.

RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Board should present a balanced, clear and understandable assessment in the annual and interim reports of the Company and other financial disclosures required under the Listing Rules, and report to regulators as well as information required to be disclosed pursuant to applicable statutory requirements.

The Board has acknowledged its responsibility for the preparation of the consolidated financial statements of the Company for the year ended 31 December 2018. In preparing the financial statements for the year, the Company's senior management provided sufficient explanation and information to the Board for making an informed assessment of financial and other information put before it for approval. In addition, the Board should prepare the financial statements on a going concern basis, with supporting assumptions or qualifications as necessary. The Board was not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The statement by the external auditor of the Company about its reporting responsibilities in the financial statements of the Group is set out in the Independent Auditor's Report on pages 67 to 73 of this annual report.

AUDITOR'S REMUNERATION

The fees paid/payable to the external auditor of the Company for the year ended 31 December 2018 in respect of the audit and non-audit services provided to the Company and its subsidiaries amounted to approximately HK$3,483,000 and HK$7,000 respectively. Such non-audit services were rendered to the Group to review and report on the continuing connected transactions.

AUDIT COMMITTEE

The Board has established an Audit Committee with written terms of reference that complies with the CG Code, which has been published on the respective websites of the Stock Exchange and the Company. The Audit Committee currently consists of four Independent Non-executive Directors, namely Mr. Kam Yiu Shing Tony (chairman of the Audit Committee), Mr. Chiu Sin Chun, Mrs. Tse Wong Siu Yin Elizabeth and Mr. Yip Dicky Peter, J.P., and one Non-executive Director, namely Mr. David Michael Norman.

The principal roles and functions of the Audit Committee include but are not limited to:

1. to be primarily responsible for making recommendations to the Board on the appointment, reappointment and removal of the external auditor, and to approve the remuneration and terms of engagement of the external auditor, and any questions of its resignation or dismissal;

2. to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards. The Audit Committee should discuss with the auditor the nature and scope of the audit and reporting obligations before the audit commences;

3. to develop and implement policy on engaging an external auditor to supply non-audit services;

4. to monitor integrity of the Company's financial statements and the annual report and accounts and half-year reports, and to review significant financial reporting judgments contained in them, and the members of the Audit Committee should liaise with the Board and the Company's senior management and the Audit Committee must meet with the Company's external auditor at least twice a year;

5. to review the Company's financial controls, and unless expressly addressed by the Board itself, to review the Company's risk management and internal control systems;

6. to discuss the risk management and internal control systems with the Company's senior management to ensure that the Company's senior management has performed its duty to have effective systems;

7. to consider major investigation findings on risk management and internal control matters as delegated by the Board or on its own initiative and the response of the Company's senior management to these findings;

8. to ensure co-ordination between the Internal Audit Department and the external auditor, and to ensure that the internal audit function is adequately resourced and has appropriate standing within the Company, and to review and monitor its effectiveness;

9. to review the Group's financial and accounting policies and practices;

10. to review the external auditor's management letter, any material queries raised by the auditor to the Company about accounting records, financial accounts or control systems and the Company's response;

11. to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board; and

12. to review the Company's compliance with the CG Code and disclosures in the Corporate Governance Report.

During the year under review, the Audit Committee met with the Company's senior management and the external auditor twice, where relevant, to review the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters, and performed the following:

1. Reviewed whistleblowing policy and system for employees and parties dealing with the Company to raise complaints, in confidence, to the Audit Committee about improprieties or irregularities relating to the Company and/or the Directors, the Company's senior management, employees or advisers.

2. Reviewed the appointment and remuneration of KPMG, the external auditor of the Company and its non-audit services provided to the Group.

3. Reviewed the audit plans, scopes, methods and reporting formats proposed by KPMG.

4. Reviewed the internal and external audit reports, and the response of the Company's senior management to the reported findings.

5. Reviewed the interim and annual financial statements, reports, and results announcement of the Group for the year under review prior to publication.

6. Reviewed the internal audit reports on risk management and internal control system.

7. Reviewed the Company's policies and practices on corporate governance.

8. After due deliberation, recommended the appropriate outcomes of the above reviews for the Board's approval.

There were two (2) private sessions between the Audit Committee and the external auditor without the presence of management in the Audit Committee meetings held in 2018.

REMUNERATION AND NOMINATION COMMITTEE

The Board has established the Remuneration and Nomination Committee with written terms of reference that complies with the CG Code, which has been published on the respective websites of the Stock Exchange and the Company. The Remuneration and Nomination Committee currently consists of three Independent Non-executive Directors, namely Mrs. Tse Wong Siu Yin Elizabeth (chairman of the Remuneration and Nomination Committee), Mr. Chiu Sin Chun and Mr. Yip Dicky Peter, J.P., and two Non-executive Directors, namely Mr. David Michael Norman and Ms. Li Yuen Yu Alice.

The principal roles and functions of the Remuneration and Nomination Committee include but are not limited to:

Remuneration function

1. to make recommendations to the Board on the Company's policy and structure for all Directors' and the Company's senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;

2. to review and approve the Company senior management's remuneration proposals with reference to the Board's corporate goals and objective;

3. to make recommendations to the Board on the remuneration packages of individual Executive Director and the Company's senior management. This should include benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment;

4. to make recommendations to the Board on the remuneration of Non-executive Directors;

5. to consider salaries paid by comparable companies, time commitment and responsibilities and employment conditions elsewhere in the Group;

6. to review and approve compensation payable to Executive Directors and senior management for any loss or termination of office or appointment to ensure that it is consistent with contractual terms and otherwise fair and not excessive;

7. to review and approve compensation arrangements relating to dismissal or removal of Directors for misconduct to ensure that they are consistent with contractual terms and are otherwise reasonable and appropriate; and

8. to ensure that no Director or any of his associates is involved in deciding his own remuneration.

Nomination function

9. to review the structure, size and diversity of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

10. to identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;

11. to assess the independence of the Independent Non-executive Directors;

12. to make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the Chairman and the chief executive; and

13. to monitor the implementation of the Board Diversity Policy, review the Board Diversity Policy, as appropriate and make relevant recommendations to the Board for consideration and approval.

During the year under review, the Remuneration and Nomination Committee had performed the following:

1. Made recommendations to the Board on the remuneration packages of individual Executive Directors.

2. Reviewed the remuneration of Non-executive Directors (including Independent Non-executive Directors).

3. Reviewed the Group's remuneration policy.

4. Reviewed the structure, size and diversity of the Board.

5. Considered and recommended to the Board on (i) the re-designation of Mr. Peter Ng from an Executive Director to a Non-executive Director; (ii) the appointment of Mr. Paul Ng as co-chief executive officer of the Company; and (iii) the re-designation of Ms. Cheung from chief executive officer to co-chief executive officer of the Company.

6. Reviewed the confirmation of independence by the Independent Non-executive Directors.

7. Reviewed the re-election of the retiring Directors at the AGM held on 14 June 2018.

8. After due deliberation, recommended the appropriate outcomes of the above reviews for the Board's approval.

The Remuneration and Nomination Committee reviews the remuneration package annually, taking into consideration market practice, competitive market position and individual performance.

The Remuneration and Nomination Committee has adopted the model described in code provision B.1.2(c)(ii) of the CG Code to make recommendations to the Board on the remuneration packages of Executive Directors and the Company's senior management.

The remuneration of each of the Non-executive Directors and Independent Non-executive Directors is determined by the Board under the recommendation of the Remuneration and Nomination Committee by reference to such Director's duties and responsibilities in the Group, time involvement and the prevailing market conditions.

NOMINATION POLICY

Objectives

The nomination policy (the "Nomination Policy") aims to provide the key selection criteria and principles for the Remuneration and Nomination Committee to identify and evaluate a candidate for recommendation to the Board for selection and appointment of a director of the Company, whether as an additional director or for replacement or otherwise.

Selection Criteria

The Remuneration and Nomination Committee shall consider a number of the factors in assessing the suitability of a proposed candidate to the Board, including but not limited to the following:

(a) reputation for integrity;

(b) balance of skill, experience, expertise and personal qualities that will be best complement the relevant business sectors of the Company and the overall effectiveness of the Board;

(c) capability to devote adequate time for participation in meetings of the Board and all committees as delegated by the Board and attention to the Company's businesses, and commitment to the role;

(d) diversity in all aspects, including but not limited to gender, age, cultural, educational and professional background, skills, knowledge and experience;

(e) compliance with the criteria of independence as prescribed under Rule 3.13 of the Listing Rules for the appointment of an independent non-executive director; and

(f) any other relevant factors as may be determined by the Remuneration and Nomination Committee or the Board from time to time.

Nomination Procedures

1. If the Board determines that an additional or replacement director is required, the Board will notify the Remuneration and Nomination Committee the criteria and deploy various channels (including but not limited to referral from the current directors and shareholders) to source directorship candidates.

2. The Remuneration and Nomination Committee may propose to the Board a candidate recommended or offered for nomination by a shareholder of the Company for election to the Board and the appointment or re-appointment of Directors and succession plan for Directors are subject to the final approval of the Board.

3. On making recommendation, the Remuneration and Nomination Committee may submit the candidate's personal profile and a proposal to the Board for consideration. The proposal must clearly indicate the nominating intention; and the candidate's consent to be nominated and biographical details that are required to be disclosed under the Listing Rules, including the information and/or confirmation required under Rule 13.51(2) of the Listing Rules, subject to any amendments as may be made by the Stock Exchange from time to time.

4. The Board shall observe its Board Diversity Policy and shall, subject to merit and suitability, continue in its endeavours to introduce more diversity into the Board, taking into account professional experience and qualifications, gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service and any other factors that the Board might consider relevant and applicable from time to time towards achieving diversity of the Board.

5. Any eligible shareholder of the Company who desires to nominate a person to stand for election as a Director at a general meeting must lodge a written nomination of the candidate together with such person's consent to be nominated and biographical details to the attention of the Board within the lodgment period as more particularly set out in the circular to the shareholders of the Company.

6. Where a retiring Director, being eligible, offers himself for re-election, the Board shall consider and, if consider appropriate, recommend such retiring Director to stand for re-election at a general meeting. A circular containing the requisite information on such retiring Director will be sent to shareholders prior to a general meeting in accordance with the Listing Rules.

Monitoring and Review and Amendment of the Nomination Policy

1. The Remuneration and Nomination Committee will from time to time review the Nomination Policy and monitor its implementation to ensure its effectiveness and compliance with regulatory requirements and good corporate governance practice.

2. The Nomination Policy has been approved by the Board. Any subsequent amendment of the Nomination Policy shall be reviewed by the Remuneration and Nomination Committee and approved by the Board.

DIRECTORS' CONTINUOUS PROFESSIONAL DEVELOPMENT

Every newly appointed Director should receive a formal, comprehensive and tailored induction on appointment for ensuring that he has a proper understanding of the business and operations of the Group and that he is fully aware of his duties and responsibilities as a Director under applicable statute and common law, the Listing Rules, legal and other regulatory requirements as well as the Company's business and governance policies.

All Directors are provided with regular updates on the performance and financial position of the Group to enable the Board as a whole and each Director to discharge their duties. In addition, updates on the latest developments regarding the Listing Rules and other applicable regulatory requirements are provided to each Director to ensure compliance and enhance his awareness of good corporate governance practices.

All Directors should participate in continuous professional development to develop and refresh their knowledge and skills for ensuring that their contribution to the Board remains informed and relevant. According to the training records maintained by the Company, the types of trainings received by the Directors during the year ended 31 December 2018 according to the records provided by the Directors are summarized as follows:

	Type of trainings	
	Attending seminars/ E-training/ conferences and/ or similar events	**Reading Materials and Updates**
Executive Directors		
Mr. Ng Hung Sang	✓	✓
Ms. Cheung Choi Ngor	✓	✓
Mr. Richard Howard Gorges	✓	✓
Mr. Ng Yuk Yeung Paul	✓	✓
Non-executive Directors		
Ms. Ng Yuk Mui Jessica	✓	✓
Mr. Ng Yuk Fung Peter	✓	✓
Mr. David Michael Norman	✓	✓
Ms. Li Yuen Yu Alice	✓	✓
Independent Non-executive Directors		
Mr. Chiu Sin Chun	✓	✓
Mr. Kam Yiu Shing Tony	✓	✓
Mrs. Tse Wong Siu Yin Elizabeth	✓	✓
Mr. Yip Dicky Peter, J.P.	✓	✓

COMPANY SECRETARY

Mr. Watt Ka Po James ("Mr. Watt") has been appointed as the company secretary of the Company (the "Company Secretary") pursuant to Rule 3.28 of the Listing Rules. Mr. Watt is an employee of the Company who has day-to-day knowledge of the Group's affairs.

The Board has acknowledged that a company secretary plays a key role in advising the Company on corporate governance and other regulatory compliance matters. For discharging the aforesaid matters effectively and professionally, the Company Secretary must keep up-to-date with regulatory and legal developments relevant to the Company by means of continuous training and professional development. In addition, the Company Secretary has been regarded as a crucial conduit of communications between the Board and the senior management; the Company and the Shareholders; and the Company and the regulators.

Mr. Watt has complied with Rule 3.29 of the Listing Rules by taking no less than 15 hours of relevant professional training during the year under review.

COMMUNICATION WITH SHAREHOLDERS

The Company uses general meeting, annual report, interim report, announcement, circular and its website as communication tools to keep the Shareholders informed of the matters of significance and latest development of the Group.

Shareholders are provided with contact details of the Company to enable them to make enquiries with respect to the Company's affairs. Shareholders can also send their enquiries to the Company through these channels or contact Union Registrars Limited, the share registrar of the Company, in case of enquiries about shareholdings.

AGM is one of the channels on which the Directors meet with the Shareholders whose views can be addressed to the Board directly. At the AGM, separate resolution will be proposed by the chairman in respect of each substantially separate issue, and voting on each resolution will be conducted by poll. The chairman of the AGM ensures that an explanation is provided of the detailed procedures for conducting voting by poll and answers any questions from the Shareholders. The notice of AGM is distributed to the Shareholders at least twenty (20) clear business days prior to the AGM. The accompanying circular sets out the details of each proposed resolution and other relevant information as required under the Listing Rules. Voting results are posted on the websites of the Stock Exchange and the Company respectively on the day of the AGM.

Executive Directors, members of the Audit Committee and the Remuneration and Nomination Committee and the external auditor will be available to attend the AGM to answer questions from the Shareholders and to gain and develop a balanced understanding of the views of from the Shareholders.

The Company has adopted a dividend policy, details of which are disclosed in the section headed "Dividend Policy" in the Directors' Report of this annual report.

SHAREHOLDERS' RIGHTS

Procedures for Shareholders to Convene an Extraordinary General Meeting

Extraordinary General Meeting ("EGM") should be convened upon the requisition of any two or more the Shareholders holding, at the date of deposit of the requisition, an aggregate of not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings. Such requisition shall be made in writing to the Board or the Company Secretary for the purpose of requiring an EGM to be called by the Board for the transaction of any business specified in such requisition. The EGM shall be held within three (3) months after the deposit of such requisition. If within twenty-one (21) days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) themselves or any of them representing more than one-half of the total voting rights of all of them may convene such meeting, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board should be reimbursed to the requisitionist(s) by the Company.

Procedures for Shareholders to send enquiries to the Board

The Shareholders may send their enquiries, in written form, to the Board by addressing them to the Company Secretary at the Company's principal place of business in Hong Kong at 28th Floor, Bank of China Tower, 1 Garden Road, Central, Hong Kong.

Procedures for putting forward proposals at a shareholders' meeting

There is no provision allowing the Shareholders to make proposals or move resolutions at the AGMs under the Articles or the laws of the Cayman Islands. The Shareholders who wish to make proposals or move a resolution may, however, convene an EGM in accordance with the "Procedures for Shareholders to Convene an Extraordinary General Meeting" set out above.

CONSTITUTIONAL DOCUMENTS

During the year ended 31 December 2018, there was no significant change in the constitutional documents of the Company. The Articles is available on the websites of the Stock Exchange and the Company.

INVESTOR RELATIONS

The Company keeps on promoting good investor relations and enhancing communication with the Shareholders and potential investors of the Company. The latest data and information of the Group are timely updated on the Company's website at www.scholding.com.

Environmental, Social and Governance Report

The Group hereby presents this environmental, social and governance ("ESG") report for the year ended 31 December 2018 in accordance with the requirements set out in Appendix 27 (Environmental, Social and Governance Reporting Guide) (the "ESG Guide") of the Listing Rules.

During the year under review, the Group continued to focus on four key areas: (a) Environment; (b) Employment and Labour Practices; (c) Operation Practices; and (d) Community Investment, and to strive to balance the impacts of environmental protection and social responsibility in the Group's strategic plans for the purpose of driving sustainable value for the Group's stakeholders and the communities in which the operations of the Group are located. There were no significant changes in the Group's businesses, operation locations, share capital structure and supply chain structure during the year under review. This ESG Report was approved by the Board of Directors of the Company on 26 March 2019.

According to the financial results of the Group during the financial year of 2018, revenue from trading and manufacturing business accounted for approximately 94.8% of the Group's total revenue (2017: approximately 94.6%), in which revenue from toys manufacturing business (as an OEM) accounted for approximately 85.2% of the Group's total revenue (2017: approximately 87.3%). As for the toys segment, Wahheng Toys (Shenzhen) Co., Ltd. ("Wahheng"), remaining as the centralized operation headquarters in the People's Republic of China ("PRC"), focusing on customer relationship management, production planning, shipping, procurement, financial service and other management functions. Everwin Toys (Dongguan) Co., Ltd. ("Everwin"), the flagship factory which continuously ranked first in terms of number of employees, revenue and factory area among other toys factories of the Group in the PRC. Given the significant revenue contribution by both Wahheng and Everwin to the Group, the scope of this ESG Report mainly covers Wahheng, Everwin and the Group's headquarters in Hong Kong.

During the year under review, the Group's philosophy of "Healthy Life, Safe Environment and Bright Future" remained unchanged and requiring each of its major subsidiaries, especially Wahheng and Everwin, to strictly comply with relevant national and local laws, regulations, rules and procedures concerning environmental protection, employment and labour practices and operation practices. In addition, both Wahheng and Everwin are the members of ICTI Ethical Toy Program ("IETP") and have strictly adhered to the Code of Business Practices of IETP by committing to factory operations in a lawful, safe and healthful manner. Wahheng and Everwin all the time uphold the following standards to support the rights and well-being of factory workers:

- Audit Process – transparent and auditors are allowed to conduct worker interviews without interference;

- Business Ethics – no improper influence the process and outcome of audit;

- Discrimination – no discrimination in recruitment, workplace or dismissal;

- Disciplinary Practices – employees are treated dignity and respect;

- Employee Representation – right of freedom of association and collective bargaining are recognized are respected;

– Employment Practices – compliance with applicable employment regulations;

– Environment and Chemical Safety – compliance with environmental regulations and provision of training for handling chemicals;

– Modern Day Slavery – no forced, involuntary or prison labour;

– Safety – workplace conditions are safe and protective tools are provided;

– Underage Labour – no child labour;

– Wages – legal, fair and accurate pay without delay; and

– Working Hours – not excessive, adequate rest and break provided.

Wahheng and Everwin continuously and proactively look for and apply suitable advanced techniques in relevant stages of the production process. By introducing highly efficient equipment and simplifying operation procedures for the purpose of reduction of consumption in fuels, electricity and water such that resources could be used more effectively and in turn would be helpful for environmental protection.

The material aspects under the four key areas: 1. Environment; 2. Employment and Labour Practices; 3. Operation Practices; and 4. Community Investment are set out as follows:

1. ENVIRONMENT

1.1 Emission

Environmental protection plays a crucial role for a corporation's sustainability. It is the strategy of the Group to keep reducing the environmental impact from its operations, and to promote environmental protection within the Group, its marketplace and the communities in which the Group's operations are located. Notwithstanding toys manufacturing industry is considered as light industry which usually does not consume much energy and cause severe air and water pollution, the Group keeps minimizing the environmental impacts from its operations by means of:

(a) ***Control of emission of greenhouse gases ("GHG")***

For strict compliance with IETP's Code of Business Practices and by reference to such relevant laws and regulations as 《中華人民共和國大氣污染防治法》(Atmospheric Pollution Prevention and Control Law of the PRC*) ,《廣東省地方標準大氣污染物排放限值》(Emission Limits of Atmospheric Pollutants of Local Standard of Guangdong Province*) and 《工業企業廠界環境噪聲排放標準》(Emission Standard of Environmental Noise for Industrial Enterprise and Factory Sectors*), the Group has formulated and implemented certain policies and controlling procedures such as 《環境保護控制程序》(Environmental Protection Control Procedures*),《健康安全環保政策》(Health and Safety Environmental Protection Policy*),《溫室氣體量化與報告程序》(Greenhouse Gas Quantitative Reporting Procedures*) and 《溫室氣體管理文件與記錄管理程序》(Greenhouse Gas Qualitative Management Procedures and Greenhouse Gas Documentation and Record Management Procedures*), for controlling emission of GHG, noise, light intensity, workplace temperature, water consumption and etc., and all such policies and controlling procedures were in force during the period under review.

For compliance with the relevant laws and regulations, the Group has continuously engaged an independent third party whose qualifications are accredited by the local authorities in the PRC, to conduct regular tests on air quality, industrial emission, generator emission, noise and illumination levels in the workplaces for the purpose of ensuring all such data are complied with the national and local standards.

The Group is proactively reducing its wastage. Employees are encouraged to (a) use environmentally-friendly public transportation, e.g. MTR and trams for local travelling in Hong Kong, and use public transportation (especially underground rail) and car-pool for local travelling in the PRC; (b) use video/audio conferences for business meetings for reducing the frequency of business travel by air so as to reduce direct and indirect emissions of GHG; and (c) use electronic messages, especially internal communications, for the purpose of reduction of paper consumption which in turn will be helpful for reduction of indirect emission of GHG.

Paper consumption is another main source of indirect GHG emissions. The Group has implemented a number of internal administrative measures to reduce paper consumption, e.g. e-leave system (application and approval of leave), e-pay slip (salary payment notification), e-internal communications, e-reports, printing on duplex mode, paperless storage and regular waste paper collection for recycling etc. In addition, the Group has encouraged customers and suppliers to communicate by electronic means. For giving greater efforts in reduction of GHG emissions, the Group has arranged an independent recycling paper collector to collect used papers from the offices of the headquarters in Hong Kong at regular intervals.

Emission summary:

Indicators	**2018 Tonnes**	2017 Tonnes	Note
Total GHG emissions[1]	**21,928**	24,864	
Total GHG emissions per facility:			
– Wahheng	**7,072**	7,919	
– Everwin	**14,299**	16,467	
– Hong Kong Headquarters	**602**	478	
– Reduced by used papers recycling	**(45)**	(11)	
Direct emissions:			
– Company cars[2]	**280**	293	
– Diesel and liquefied petroleum gas[3]	**145**	103	
– Refrigerants	**277**	1,234	#
Indirect emissions:			
– Electricity	**20,662**	22,453	
– Business travel[4]	**153**	113	
– Paper consumption	**239**	795	

1 GHG mainly includes carbon dioxide
2 It is based on kilometers travelled and liters of gasoline and diesel consumed
3 It was consumed by water heaters and stoves
4 It is based on the International Civil Aviation Organization Carbon Emissions Calculator.

Note:

the decrease in refrigerants was due to outsourcing maintenance service instead of self-maintenance of air-conditioners during the year under review.

(b) *Control of production of hazardous and non-hazardous wastes*

Both Wahheng and Everwin produce certain wastes. By reference to such relevant laws and regulations as 《中華人民共和國固體廢物污染環境防治法》(Solid Waste Environmental Pollution Prevention and Control Law of the PRC*), 《廣東省固體廢物污染環境防治條例》(Solid Waste Environmental Pollution Prevention and Control Regulation of Guangdong Province*) and 《三廢處理管理程序》(Three Wastes Treatment Management Procedures*) has been implemented for regular identification, evaluation and proper treatment of the wastes. In addition, the Group has engaged an independent third party whose qualifications are accredited by the local authorities in the PRC, to collect those wastes in Wahheng and Everwin for the purpose of effective control of waste treatment and avoidance of environmental pollution by reckless disposal. In the Hong Kong headquarters, areas are designated for disposal of electronic equipment and waste papers. Collections of scrapped electronic equipment and waste papers are usually taken place at a regular interval by independent third parties for ensuring proper treatment and re-cycling respectively.

Waste summary:

Indicators	**2018**	2017	Note
Total water discharged[1] (m^3)	**508,101**	465,350	#
Hazardous wastes[2] collected for treatment/recycling per facility:			
– Wahheng (kg)	**28,742**	34,685	
– Everwin (kg)	**28,200**	23,633	
Non-hazardous wastes[3] collected for treatment/recycling per facility:			
– Wahheng (kg)	**170,474**	173,972	
– Everwin (kg)	**358,362**	402,617	
Electronic equipment (pieces)			
– Wahheng	**261**	25	^
– Everwin	**120**	122	
– Hong Kong headquarters	**80**	131	

1 It is based on the volume of water consumed as per the water bills for the facilities of Wahheng and Everwin. Water consumption in the Hong Kong headquarters was not taken into account as it did not involve high water consumption. The Hong Kong headquarters had only about 280 people who were working in such departments as accounts and finance, administration, human resources, legal and company secretarial, and information technology etc.

2 Includes waste oil, waste water, oil wiping towels, and empty barrels and cans for solvents.

3 Includes waste wooden pallets, waste plastic bags, waste papers, waste paper products and general office garbage. All non-hazardous wastes are directly handled by the property management of the buildings in which the offices of Hong Kong headquarters are situated so that no data in this aspect.

Notes:

The amount of water discharged in 2018 was higher than in 2017 due to the water leakages problem of the aged water pipe.

^ The number of electronic equipment was replaced in 2018 due to the replacement of existing computer equipment.

1.2 Use of Resources

Fuel (unleaded petrol and diesel) consumption and electricity consumption is respectively the main source of direct and indirect energy consumption. Both fuel and electricity consumptions are the main sources of GHG emissions. Each of Wahheng and Everwin has its own 節能減排小組 (Energy Conservation and Emission Reduction Team*) which is responsible for carrying out periodical analysis of effectiveness of resources management and of consumption level for identification of any deficiency and any practicable way of reduction of energy consumption and prevention of unnecessary energy wastage for the purpose of enhancement of environmental protection. Moreover, both Wahheng and Everwin continuously adhere to《能源資源節約管理程序制度》(Regulations for Energy Resources Conservation Management Procedures*) as well as to implement certain measures of energy conservation as recommended by an accredited third-party.

The e-notice of "Save Our World and Build our Green Office" – saving water, energy and paper at work has continuously been in force in the Hong Kong headquarters. In addition, another e-notice of "Environmental Initiative and Cost Saving" has been addressed to all staff in Hong Kong headquarters to maintain the air-conditioned room temperature of office at 25 degrees Celsius for saving energy. Moreover, employees are encouraged to turn off lighting and office equipment when leaving their workplaces, especially off-duty.

Energy consumption summary:

Indicators	**2018**	2017	Note
Total energy consumption (KWh)	**28,751,781**	30,161,531	
Total energy consumption per facility:			
– Wahheng	**9,194,608**	9,007,283	#
– Everwin	**18,489,168**	20,560,196	
– Hong Kong headquarters	**530,460**	594,052	
Direct energy consumption (KWh):	**2,297,921**	2,088,004	
– Unleaded petrol:			
– Wahheng	**655,248**	721,828	
– Everwin	**687,601**	863,310	
– Hong Kong headquarters	**62,905**	45,153	
– Diesel:			
– Wahheng	**414,895**	303,036	
– Everwin	**143,007**	87,926	
– Hong Kong headquarters	**180,149**	7,775	
– Liquefied Petroleum gas/gas oil:			
– Wahheng	**9,197**	10,021	
– Everwin	**0**	0	
– Hong Kong headquarters	**56,041**	48,955	

Indicators	2018	2017	Note
Indirect emissions (KWh):	**26,441,666**	28,073,527	*
– Electricity			
– Wahheng	**8,115,267**	7,972,398	
– Everwin	**17,658,560**	19,608,960	
– Hong Kong headquarters	**667,839**	492,169	

Notes:

\# Energy consumption increased by more electricity usage at Wahheng for rising manufacturing during the year.

* Hong Kong office of Wahheng and Everwin installed new air-conditioning system with "Grade 1" energy label which reduced the energy consumption.

(a) The Group is committed to conserving clean water. Both Wahheng and Everwin are using water properly provided by the municipal government in the places where they are located. It is the Group's objective to control water pollution by proper waste water treatment. Waste water is mainly generated from machine cooling and cleaning in Wahheng and Everwin. The Hong Kong headquarters are operating in several leased office premises of which both water supply and discharge are controlled by the respective building management which does not provide any data in relation to volume of water consumed and discharged. The management fee of each of the leased premises paid to the respective building management includes fee for water supply and discharge. Energy Conservation and Emission Reduction Team in each of Wahheng and Everwin continuously implemented different measures to reduce water consumption, and the Group achieved reduction in total water consumption during the year under review as follows:

Water consumption summary

Indicators	2018	2017	Note
Total water consumption (m^3)	**379,307**	465,350	
Total water consumption per facility (m^3):			
— Wahheng	**90,853**	110,915	
— Everwin	**314,592**	354,435	
Expenses on water consumption per facility (RMB):			
— Wahheng	**450,630**	526,114	
— Everwin	**1,559,823**	1,342,380	

The Group aims at operating its toys manufacturing business with maximum resources efficiency by minimizing unnecessary waste of materials in the production process. Being a responsible OEM, the Group is committed to complying with all specifications of all products stipulated in all contracts signed with its customers, including nature and quality of all materials for each of the designated products (including the packaging materials for such products). Given the role of OEM, the materials (including packaging materials) used for manufacturing toys are contractually specified by its renowned multinational customers from the USA, Canada and Australia.

1.3 Environmental and Natural Resources

Environmental protection is a continuous process, including management of energy and water consumption, and waste production. Apart from the aforesaid policies, guidelines, procedures, and engagement of an independent organization for carrying out energy audit on an annual basis, the Group from time to time promotes the awareness of "Energy Conservation, Start by Us" and "Energy Conservation Starting from Each Drop of Water and Each Unit of Electricity". In addition, both Wahheng and Everwin have always observed the guidance of the facility's temperature as per the guidance document under IETP's Code of Business Practice. During the period under review, such environmental protection measures as using energy saving fluorescent tubes and LED light tubes in some applicable office areas were still in force and would be monitored and reviewed regularly pursuant to the environmental requirements. The Group continues to review and monitor its energy consumption performance, and identify energy saving measures to optimize energy use.

2. EMPLOYMENT AND LABOUR PRACTICES

2.1 Employment

"People Oriented" is the Group's persistent notion. In conformity with the principle of harmonious sustainable development, the Group continuously invests its available resources in providing a supportive, comfortable and healthy workplace for employees, and in fostering a caring community in the working environment. The Group cares for all employees, which has been endorsed by its compliance with the standards of IETP by its production facilities as both Wahheng and Everwin have been certified by IETP CARE (Caring, Awareness, Responsible, Ethical) Process for its compliance since 2004.

The Group recognizes that attracting competent talents is important for its sustainable growth, so it is committed to providing fair and competitive remuneration package in form of salary and fringe benefits, e.g. personal and life insurance, paid leave and education sponsorship etc. apart from those mandatory employment-related benefits. It is the policy that salary of employees working in the headquarters in Hong Kong will be reviewed on an annual basis in December, and the eligible employees will be subject to performance appraisal evaluation to be carried out by the respective department heads and then endorsed by such employees, and all such evaluations are subject to the final approval by the relevant executive director or to whom that the director delegates. The Group Human Resources Department will provide a guideline of salary range of each category in light of the current market rate to each department head for reference for ensuring that the salary range for each job category in the headquarters in Hong Kong remains competitive. And, each of Wahheng and Everwin's annual budget for various operation expenses has taken into account of the wages trend for the workers in Guangdong province of the PRC. In addition, the Group is committed to comply with the code provisions contained in the Corporate Governance Code set out in Appendix 14 of the Listing Rules, regarding of remuneration of directors and senior management.

In order to provide a framework and guidance for ensuring (a) fairness in recruitment; (b) maximization of diversity of applicants; and (c) high caliber candidates are attracted and selected by taking into account of equal opportunities, anti-discrimination, non-harassment and prohibition of child and forced labour, such policies as "Recruitment Policy", "Equal Opportunities and Anti-Discrimination Policy" and "Code of Conduct" have been in force.

For (a) providing basic understanding of the Group's background, organization structures and business objectives; (b) safeguarding the agreed employment terms and conditions, e.g. working hours, probation period, rest periods, termination of employment, other fringe benefits; and (c) adherence to the relevant policies, systems and procedures etc., an orientation training will be provided for all newcomers by the Group Human Resources Department, and the Staff Handbook and the aforesaid policies are available in the Group's intranet folder (paperless for upholding of environmental protection) for reference at any time by the employees. As the members of IETP, Wahheng and Everwin are always in strict compliance with the relevant requirements as set out in IETP's Code of Business Practices. Furthermore, the PRC Staff Handbook for local Chinese employees of both Wahheng and Everwin is prepared in accordance with the relevant provisions in the Employment Contract Law of the PRC.

The Group explicitly opposes any discrimination on the grounds of age, gender, marital status, pregnancy, family status, race, nationality, religion and disability, and from time to time observes the provisions of such relevant laws as Employment Ordinance, Cap. 52, Employees' Compensation Ordinance, Cap. 282, Sex Discrimination Ordinance, Cap. 480 in Hong Kong, Disability Discrimination Ordinance, Cap. 487 and Race Discrimination Ordinance, Cap. 602, and of 《中華人民共和國勞動合同法》 (Employment Contract Law of the PRC*) and 《中華人民共和國勞動法》 (Labor Law of the PRC*) in the PRC.

The Group had 5,221 employees as at 31 December 2018 of which 2,619 male and 2,602 female. Indicators of employment type of each gender, employees' age group of each gender, geographical region of employment of each gender and employee turnover rate during the years of 2017 and 2018 are as follows:

(a) ***Employment type and gender***

Number of employees	**2018**		2017	
	Male	**Female**	Male	Female
Management and Department Head	**37**	**10**	35	5
Managerial	**130**	**43**	111	40
Supervisory	**203**	**98**	160	71
General Staff	**2,249**	**2,451**	2,648	2,759

(b) ***Employees' age group and gender***

Number of employees	**2018**		2017	
	Male	**Female**	Male	Female
18 ~ below 30	**590**	**447**	944	639
30 ~ below 50	**1,755**	**2,095**	1,806	2,186
50 and over	**274**	**60**	204	50

(c) ***Geographical region of employment and gender***

Number of employees	**2018**		2017	
	Male	**Female**	Male	Female
Hong Kong	**130**	**68**	139	76
PRC	**2,483**	**2,534**	2,808	2,799
Others	**6**	**0**	7	0

(d) ***Employee turnover rate***[1]

	2018	2017
Percentage of employees	**52.3%**	33.9%

1 Due to the seasonality, demand for workers by Wahheng and Everwin varies substantially, therefore, turnover rate for workers in the PRC has not been taken into account.

2.2 Health and Safety

The Group is committed to providing employees a safety and healthy working environment by reference to such occupational safety and health publications issued by Occupational Safety and Health Council as Office Lighting, Design of Office Station, Office Stretching Exercises, Work Stress, Work Postures, Correct Use of Display Screen Equipment and OSH Guides for Computer Workstation, which are all applicable to the offices of the Hong Kong headquarters. In view of the Group's manufacturing facilities in the PRC, both 《環境健康安全管理程序》 (Environmental Health and Safety Management Procedures*) and 《危害能源控制程序》 (Hazardous Energy Control Procedures*) are continuously adhered, and the Environmental Health and Safety Team keeps functioning by means of on-site communications and regular meetings for managing the environmental health and safety projects, regular assessment of the effectiveness, practicality and comprehensiveness of environmental, health and safety procedures, and timely update of all such procedures for the purposes of avoidance of accidents and continuous improvement in environment, health and safety. In order to prevent, control and eliminate occupational hazards and to raise the employees' awareness of occupational safety, both 《職業健康管理制度》 (Occupational Health Management System*) and 《職業病管理制度》 (Occupational Disease Management System*) formulated in accordance with 《中華人民共和國職業病防治法》 (Prevention and Treatment of Occupational Diseases Law of PRC*) and 《使用有毒物品場所勞動保護條例》 (Labour Protection for Workplace Using Toxic Substance Regulation*) are continuously adhered by providing, among other things, such protective gears as safety helmets, safety shoes, ear plugs and gas masks to workers, and medical check-ups for staff who are having high exposure to occupational disease are provided at pre-employment, under-employment (on an annual basis) and post-employment stages. It is the policy that staff having occupational contraindication or suspected occupational disease would be transferred out from their original posts for diagnosis and treatments for protection of health of workforce and production safety by reference to the advices from the occupational safety and health authority.

The Group Human Resources Department oversees the occupational health and safety matters. All occupational health and safety-related accidents must be reported to the Group Human Resources Department as and when necessary. Staff has been notified that any potential or suspected occupational health and safety-related issues may be notified to the Group Human Resources Department by means of email to the designated email address. The Group Human Resources Department will carry out investigation and remedial actions as and when necessary.

During the year under review, the Group did not have any work-related fatalities. Number of reportable injuries, reportable occupational diseases and lost days due to work-related injury and occupational diseases are as follows:

Number of cases and lost days	**2018**	2017
Number of reportable injuries[1]	**136**	117
Number of reportable occupational diseases[2]	**1**	2
Number of lost days due to reportable injuries	**1,217**	1,027
Number of lost days due to reportable occupational diseases	**365**	208

1 Any work-related injury resulting in incapacity, which is required to notify the Commissioner for Labour pursuant to the Employees' Compensation Ordinance in Hong Kong or to notify 社會保險行政部門 (social insurance administrative authorities*) pursuant to 工傷保險條例 (industrial injury insurance regulations*) in the PRC.

2 Any occupational disease resulting in incapacity, which is required to notify the Commissioner for Labour pursuant to the Employees' Compensation Ordinance in Hong Kong or to notify 社會保險行政部門 (social insurance administrative authorities*) pursuant to 工傷保險條例 (industrial injury insurance regulations*) in the PRC.

2.3 Development and Training

For sustainable development of the Group and its employees, Employees Training and Development Policy continued playing a key role during the year under review. The Group has arranged in-house training courses, e.g. induction orientation and on-the-job trainings, and other training courses and seminars conducted by third party providers in light of the employees' job requirements and the business objectives of the Group.

Performance appraisal evaluation is an interactive exercise between an employee and his/her department head, which involves appraising an employee's past performance and identifying the employee's areas for improvement and enhancement for fulfilment of the agreed objectives. The Group encourages and supports employees to improve and enhance their knowledge and skills that are attributable to achievement of the agreed objectives by granting study and examination leave.

Both Wahheng and Everwin have their respective 《員工培訓控制程序》 (Staff Training Control Procedures*) in accordance to their own unique conditions and demands. The Human Resources Department will conduct training survey in the fourth quarter of each financial year for planning training programmes for the forthcoming year. Training programmes cover a wide range of topics, including pre-employment induction orientation, management, professional, technique, quality control and safety, which are provided by means of both internal and external sources for the purpose of enhancement of employees' professionalism and occupational skills.

Number of employees trained by employment type and gender during the years of 2017 and 2018 are as follows:

Number of employees	**2018**		2017	
	Male	**Female**	Male	Female
Management and Department Head	**126**	**21**	8	2
Managerial	**225**	**109**	49	9
Supervisory	**263**	**359**	129	50
General Staff	**11,431**	**8,396**	14,327	8,670

Average training hours completed per employee by employment type and gender during the years of 2017 and 2018 are as follows:

Average training hours per employee (hours)	**2018**		2017	
	Male	**Female**	Male	Female
Management and Department Head	**5**	**5**	3	7
Managerial	**5**	**5**	11	6
Supervisory	**5**	**5**	62	72
General Staff	**4**	**4**	6	7

The Group's Wah Shing Academy had provided various training courses substantially during the year under review.

2.4 Labour Standards

The Group strictly complies with the Employment Ordinance and 《中華人民共和國勞動合同法》(Employment Contract Law of the PRC*) in respect of employment in Hong Kong and the PRC respectively. As per the Recruitment Policy, employment of child and forced labour is strictly prohibited. In addition, all such illegal means as retention of identity cards or passports, intimidation, coercion and undue pressure are strictly prohibited. It is the policy that all employees in the Hong Kong headquarters are aged 18 and above. In the PRC, both Wahheng and Everwin have implemented their own 《限制童工入廠辦法》 (Minor Labour Hiring Control Practice*) which explicitly prohibits from hiring any labour aged under 16. It is a standard procedure in screening stage being adopted in Hong Kong and the PRC that all interviewees are required to present their identity cards for inspection for ascertaining their identities, ages and validity of employment status. No employment offer will be made to any candidates whose ages are below 18 in Hong Kong and below 16 in the PRC. In the event that any irregularities in ages, identities and/or validities of employment status is subsequently found, employment with all such concerned candidates will be immediately terminated, and the Group will report such incident to the relevant authorities as soon as possible. In the case of any child labour is ascertained by Wahheng or Everwin, such labour will be repatriated to their homes after medical check-up.

No child labour was hired or subsequently found in both 2017 and 2018.

3. OPERATION PRACTICES

3.1 Supply Chain Management

As the supply chain management is crucial to the Group's sustainable operations, the Group from time to time manages the quality of its suppliers by means of its 《供應商管理控制程序》 (Supplier Management and Control Procedures*). Apart from the assessment of all potential suppliers and new suppliers designated by customers in form of capability of supply of materials, qualities of materials and prices of materials by the assessment team of the procurement department of each of Wahheng and Everwin for the purpose of achieving fair, open and just selection of new suppliers, the procurement department of each of Wahheng and Everwin is responsible for fostering all current key suppliers (a) to comply with all applicable laws and regulations in respect of their employment and operations, including occupational health and safety, environmental protection, and statutory maintenance of relevant records of documentation; (b) not to engage any corruption and take any undue advantage to obtain or retain business; (c) to protect intellectual property rights and safeguard customers' personal information; (d) not to engage any child and forced labour; and (e) not to discriminate age, gender, marital status, pregnancy, family status, race, nationality, religion and disability in employment, for the purpose of managing the supply chain in a socially and environmentally responsible manner. In the event of any violation of such business integrity as corruption or extortion, the Group will take all appropriate actions for safeguarding its interest, including immediate termination of contract with the supplier in default.

Number of key suppliers by geographical regions during the years of 2017 and 2018 is as follows:

Number of key suppliers	**2018**	2017
Hong Kong	**269**	315
PRC	**295**	268
Others	**5**	4

3.2 Product Responsibility

The Group continues adhering to the principle of "Quality First, Customer Foremost" by closely monitoring its production processes and attending to the customers' needs. The Group is also committed to the quality of its products that meets both the local and international standards by maintaining a quality management system in accordance with the standards of ISO9001 Quality Management Systems. In addition, the manufacturing facilities in the PRC have obtained certifications from the International Certification Network (IQNet), China Quality Certification Centre (CQC) and Hong Kong Quality Assurance Agency (HKQAA). For continuing reinforcement of product quality, the Group conducts an annual review of the provisions of 《質量手冊》 (Quality Handbook*) for compliance with the international standards of ISO9001, which in turn strengthens the Group's competitiveness in the international market.

Wahheng has its own physics testing laboratory which has been certified by its customers. Everwin has its own physics and chemistry testing laboratories, both of them have been certified by the China National Accreditation Service for Conformity Assessment (CNAS). These laboratories can provide professional examinations and reports in respect of reliability and safety measures covering product mechanical, physical and chemical aspects, and certain electronic aspects, for ensuring fulfilment of both quality and safety standards at the stages of research and development (R&D) and production set out by the Group's customers. Strong and reliable quality assurance helps the Group to gain recognition and credibility from its customers, which in turn further reinforces the Group's position in the international business market.

The procedures of product recall and customer complaints are set out in 《產品召回程序》(Product Recall Procedures*) and 《處理客戶投訴程序》(Customer Complaints Handling Procedures*) respectively for providing efficient after-sale services which are useful in maintaining customer satisfaction and helpful for lowering down the costs and losses if the recalls or complaints are remedied shortly.

The Group has maintained product acceptance rate at almost 100% during the year under review. No product recall due to safety or health reasons and no significant complaints in respect of defects during the year under review.

The Group from time to time observes the provisions of Copyright Ordinance, Cap. 528, and respects intellectual property rights. As per the Information Technology Policy, employees are not allowed to install any unauthorized or unlicensed software into their working computers provided by the Group. Use of any materials which are in violation of the relevant law is strictly prohibited.

Both Wahheng and Everwin have implemented《敏感產品保密控制程序》(Classified Products Confidentiality Control Procedures*) which sets out stringent requirements in relation to responsible departments and personnel, execution of confidentiality agreement, classification and criteria of restricted areas, security management, information management, destruction of classified products, divulgence handling, record keeping and etc., for upholding confidentiality in each stage of R&D, processing, testing and delivery.

The Group respects privacy rights of its stakeholders, and a privacy policy statement is published on its website (www.scholding.com). All personal data collected, processed, used, disclosed and retained are subject to the Personal Data Privacy Policy which is prepared by reference to Personal Data (Privacy) Ordinance, Cap. 486. Personal Information Collection Statement (PICS) will be provided for all candidates pertaining to employment, which sets out the purposes of personal data collection, disclosure, retention and storage. In addition, the Group is obliged to safeguard the personal data of its stakeholders and to use such data for specific purpose, e.g. verifying identity and checking creditability for provision of goods and services.

3.3 Anti-corruption

The Group is committed to conducting its business activities legally and ethically. Code of Conduct stipulates no bribes, kickbacks or advantages solicited from or given to any person for any purposes, the way of handling gifts and other benefits valued at more than HK$500, and no violation of any applicable laws and ethical standards. The Group Internal Audit Department is responsible for reviewing and auditing the business activities.

Both Wahheng and Everwin have their own 《員工行為準則政策與程序》 (Employee Code of Conduct Policies and Procedures*) by reference to the provisions of Code of Conduct, which places emphasis on compliance with the relevant laws, e.g. Prevention of Bribery Ordinance, Cap. 201, integrity maintenance and prohibition from involvement of any bribes, kickbacks and etc. During the year under review, there were no confirmed incidents in relation to corruption, and no suppliers' contracts were terminated or not renewed due to corruption.

In addition, the Group encourages its stakeholders to report its employees' misconduct by reference to its Whistleblowing Policy and Procedures which are set out on the corporate website (www.scholding.com). Any complainant may raise his/her complaints against inappropriate and unlawful behavior or malpractice of any Group's employees (including its contractors and consultants) on confidential base, directly to the Head of Group Internal Audit, without the fear of incrimination. The Head of Group Internal Audit will review and evaluate the complaints, and then determine the mode of investigation. If the alleged misconduct, malpractice or irregularity is confirmed, a report prepared by the Head of Group Internal Audit will then be circulated to the relevant department head and the Group Human Resources Department for the purpose of consideration and determination of any remedial and disciplinary actions to be taken. A summary of complaints received, results of such complaints and the actions taken will be made available to the Board on a biannual basis.

4. COMMUNITY INVESTMENT

As a responsible corporate citizen, the Group uses its expertise and resources to support the communities in which it operates in such manner as helping people in need and organizing charitable events and donating funds raised by such events to local charities etc.

The Company has been consecutively conferred an award of "Caring Company" logo by The Hong Kong Council of Social Services for three (3) years, marking the recognition of the Group's continuous contribution to the Hong Kong community.

The Volunteer Team Committee is responsible for carrying out various community activities for the Group, which comprises members from different departments and business units. During the year under review, a number of voluntary activities including caring for the underprivileged and environmental protection were launched:

– "旭茉 JESSICA RUN" for raising funds for the underprivileged.

– "Food Distribution" for providing food to the underprivileged who were in need of food aid.

– "Battling against 16 degrees" to spread the message of environmental friendly.

In addition, the Group encourages staff to participate organ donation organized by Department for Health, and made donations to charitable and non-profit-making organisations in Hong Kong and the PRC during the year under review.

The Group is a supporter for developing a healthy and green community, so it will not only continuously dedicates its efforts to protect the environment by controlling emissions of GHG, consumption of energy and water and waste production etc. but also participates in different events to contribute positivity to the communities in which it operates.

With full support of the management, the Group will continue to put forth its best effort in helping people and work hand in hand with employees to contribute to our community.

* For reference only (the official name is in Chinese)

Independent Auditor's Report

Independent auditor's report to the shareholders of South China Holdings Company Limited
(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of South China Holdings Company Limited ("the Company") and its subsidiaries ("the Group") set out on pages 74 to 205, which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the *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") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the Cayman Islands, and we have fulfilled our other ethical responsibilities in accordance with these requirements and 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)*

<table>
<tr><th colspan="2">Valuation of investment properties and investment properties classified as held for sale</th></tr>
<tr><td colspan="2">Refer to notes 13 and 30 to the consolidated financial statements and the accounting policies notes 2.4(h) and (i).</td></tr>
<tr><th>The Key Audit Matter</th><th>How the matter was addressed in our audit</th></tr>
<tr><td>The Group holds a portfolio of investment properties located in Hong Kong and in certain cities across Mainland China. The carrying value of these properties (including those classified as held for sale) accounted for 59% of the Group's total assets as at 31 December 2018.

Investment properties are stated at fair value. The fair values of the investment properties as at 31 December 2018 were assessed by the board of directors primarily based on valuations prepared by an independent professionally qualified property valuer which take into account current rents or hypothetical rents and the reversionary potential of the tenancies of each property or comparable sales evidence as available in the relevant markets, where appropriate. The net changes in fair value of investment properties (including those classified as held for sale) recognised in the consolidated statement of profit or loss represented 163% of the Group's profit before taxation for the year ended 31 December 2018.

We identified the valuation of the Group's investment properties and investment properties classified as held for sale as a key audit matter because these properties represent the majority of the Group's total assets and a small percentage error in the valuation of individual investment properties, when aggregated, could have a significant impact on the Group's profit before taxation for the year and because the valuations are inherently subjective and require significant judgement and estimates, particularly in selecting the appropriate valuation methodology and in determining capitalisation rates, market rents and unit prices.</td><td>Our audit procedures to assess the valuation of the Group's investment properties and investment properties classified as held for sale included the following:

• obtaining and inspecting the valuation reports prepared by the independent professionally qualified property valuer engaged by the Group and on which the directors' assessment of the fair values of investment properties was based;

• meeting the independent professionally qualified property valuer, without the presence of management, and discussing the valuation methodology adopted with reference to the requirements of the prevailing accounting standards, challenging the key estimates and assumptions adopted in the valuations, including prevailing market rents, market yields and comparable market transactions, and assessing the independent professionally qualified property valuer's qualifications, expertise, objectivity and independence;

• with the assistance of our internal property valuation specialists, comparing the key estimates and assumptions adopted in the valuation of investment properties, on a sample basis, including those relating to capitalisation rates, market rents and unit prices, with available market data and government produced market statistics;

• comparing tenancy information, including rental and occupancy status, provided by the Group to the independent professionally qualified property valuer with the underlying contracts, on a sample basis.</td></tr>
</table>

KEY AUDIT MATTERS *(Continued)*

Assessing the net realisable value of properties under development	
Refer to note 24 to the consolidated financial statements and the accounting policies note 2.4(u)(ii).	
The Key Audit Matter	**How the matter was addressed in our audit**
As at 31 December 2018, the Group held properties under development in Mainland China, which were stated at the lower of cost and net realisable value at an aggregate amount of HK$1,899 million. The calculation of the net realisable value of each property development project at the reporting date is performed by the Group's internal property experts. The calculation of the net realisable value of properties under development involves significant management judgement in preparing estimations of the costs to complete each property development project as well as in assessing the expected selling prices for each property (with reference to recent sales transactions in nearby locations and rates of new property sales) and the estimated future selling costs. We identified the assessment of net realisable value of the Group's properties under development as a key audit matter because of the inherent risks involved in estimating future selling prices and the future costs to complete each property development project.	Our audit procedures to assess the net realisable value of properties under development included the following: • assessing the design, implementation and operating effectiveness of key internal controls over the preparation and monitoring of management budgets and forecasts of construction and other costs for each property development project; • conducting site visits to all property development sites and discussing with the Group's internal property experts the progress and development budgets reflected in the latest forecasts for each property development project; • assessing the valuation methodology adopted by the Group's internal property experts and comparing the key estimates adopted, including those relating to average net selling price, with available market data and the sales budget plans maintained by the directors; • meeting the Group's internal property experts to discuss and challenge the key estimates and assumptions adopted in their net realisable value assessments and to consider their qualifications and experience;

KEY AUDIT MATTERS *(Continued)*

Assessing the net realisable value of properties under development (Continued)	
Refer to note 24 to the consolidated financial statements and the accounting policies note 2.4(u)(ii). (Continued)	
The Key Audit Matter	**How the matter was addressed in our audit**
	Our audit procedures to assess the net realisable value of properties under development included the following: (Continued) • re-performing calculations made by the Group's internal property experts in arriving at the year end assessments of net realisable value, on a sample basis, and comparing the estimated construction costs to complete each property development project with the Group's latest budgets and comparing the costs incurred to 31 December 2018 with budgets as at 31 December 2017 to assess the accuracy of management's forecasting and budgeting process; • performing sensitivity analyses to determine the extent of change in those estimates and assumptions that, either individually or collectively, would be required for the properties under development to be materially misstated and considering the likelihood of such a movement in those key estimates arising.

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than 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 THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The directors are assisted by the Audit Committee in discharging their responsibilities 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. This report is made solely to you, as a body, 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 scepticism 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.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

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

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

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

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our 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 this independent auditor's report is Ho Wai Ming.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

26 March 2019

Consolidated Statement of Profit or Loss

For the year ended 31 December 2018 (*Expressed in Hong Kong dollars*)

	Note	**2018** **$'000**	2017 $'000
Revenue	4	**4,228,197**	3,901,796
Cost of sales		**(3,651,285)**	(3,328,548)
Gross profit		**576,912**	573,248
Other income and gains, net	5	**67,478**	162,331
Fair value gain on investment properties inclusive of investment properties presented as non-current assets classified as held for sale		**315,643**	289,053
Fair value loss on financial assets measured at fair value through profit or loss		**(1,092)**	(2,462)
Selling and distribution expenses		**(71,613)**	(72,399)
Administrative expenses		**(540,550)**	(513,634)
Equity-settled share award and share options expenses		**(1,915)**	(4,736)
Profit from operations		**344,863**	431,401
Finance costs	7	**(151,278)**	(127,048)
Share of losses of associates	17	**(13)**	(604)
Share of profits of joint ventures	18	**402**	–
Profit before tax	6	**193,974**	303,749
Income tax	10	**(53,241)**	(55,617)
Profit for the year		**140,733**	248,132
Attributable to:			
Equity shareholders of the Company		**140,003**	229,872
Non-controlling interests		**730**	18,260
		140,733	248,132
Earnings per share	11		
Basic		**HK1.08 cents**	HK1.77 cents
Diluted		**HK1.00 cents**	HK1.64 cents

The notes on pages 83 to 205 form part of these financial statements.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2018 *(Expressed in Hong Kong dollars)*

	2018 $'000	2017 $'000
Profit for the year	**140,733**	248,132
Other comprehensive income (after tax and reclassification adjustments)		
Items that may be reclassified to profit or loss in subsequent periods (nil of tax effect):		
Available-for-sale financial assets:		
– Net changes in fair value	–	33,442
Exchange differences on translation of financial statements of operations outside Hong Kong	**(286,792)**	337,962
Release of exchange reserve upon step acquisition	–	(1,091)
Share of other comprehensive income of associates	**(1)**	5,236
Other comprehensive income for the year	**(286,793)**	375,549
Total comprehensive income for the year	**(146,060)**	623,681
Attributable to:		
Equity shareholders of the Company	**(121,830)**	570,877
Non-controlling interests	**(24,230)**	52,804
	(146,060)	623,681

The notes on pages 83 to 205 form part of these financial statements.

Consolidated Statement of Financial Position

As at 31 December 2018 *(Expressed in Hong Kong dollars)*

	Note	**As at 31 December 2018 $'000**	As at 31 December 2017 $'000 (Note)
NON-CURRENT ASSETS			
Property, plant and equipment	12	**190,665**	180,565
Investment properties	13	**7,726,642**	6,062,534
Prepaid land lease payments	14	**77,825**	82,969
Construction in progress	15	**149,713**	158,003
Investments in associates	17	**20**	1,374
Investments in joint ventures	18	**2,224**	–
Bearer plants	19	**49,692**	63,536
Available-for-sale financial assets	20	**–**	106,902
Financial assets measured at fair value through profit or loss	20	**114,487**	–
Prepayments and deposits	21	**24,675**	20,958
Goodwill	22	**3,017**	3,106
Other non-current assets		**15,278**	15,638
Total non-current assets		**8,354,238**	6,695,585
CURRENT ASSETS			
Inventories	23	**625,756**	577,305
Properties under development	24	**1,898,847**	1,597,326
Trade receivables	25	**599,615**	538,310
Prepayments, deposits and other receivables	26	**864,904**	792,500
Financial assets measured at fair value through profit or loss	20	**16,495**	26,050
Foreign exchange forward contracts	27	**–**	25,660
Amounts due from non-controlling shareholders of subsidiaries	28	**28,424**	56,153
Amounts due from joint ventures	18	**435**	–
Tax recoverable		**58,592**	57,300
Cash and bank balances	29	**847,112**	713,029
		4,940,180	4,383,633
Non-current assets classified as held for sale	30	**272,000**	1,883,000
Total current assets		**5,212,180**	6,266,633
CURRENT LIABILITIES			
Trade payables	31	**658,276**	668,987
Other payables and accruals	32	**1,099,638**	787,536
Interest-bearing bank borrowings	33	**2,146,655**	1,744,489
Foreign exchange forward contracts	27	**18,966**	–
Amounts due to non-controlling shareholders of subsidiaries	34	**8,444**	5,221
Amount due to a related party	35	**137,166**	–
Tax payable		**62,531**	54,998
Total current liabilities		**4,131,676**	3,261,231
NET CURRENT ASSETS		**1,080,504**	3,005,402
TOTAL ASSETS LESS CURRENT LIABILITIES		**9,434,742**	9,700,987

As at 31 December 2018 (*Expressed in Hong Kong dollars*)

	Note	**As at 31 December 2018 $'000**	As at 31 December 2017 $'000 (Note)
NON-CURRENT LIABILITIES			
Interest-bearing bank borrowings	33	**2,497,447**	2,577,109
Advances from non-controlling shareholders of subsidiaries	36	**7,941**	7,941
Other non-current liabilities	37	**70,474**	74,323
Deferred tax liabilities	38	**881,333**	904,094
Total non-current liabilities		**3,457,195**	3,563,467
NET ASSETS		**5,977,547**	6,137,520
CAPITAL AND RESERVES			
Share capital	39	**140,027**	140,423
Reserves	41(a)	**5,489,675**	5,625,022
Total equity attributable to equity shareholders of the Company		**5,629,702**	5,765,445
Non-controlling interests		**347,845**	372,075
TOTAL EQUITY		**5,977,547**	6,137,520

Approved and authorised for issue by the board of directors on 26 March 2019.

Cheung Choi Ngor
Director

Richard Howard Gorges
Director

Note: The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is not restated. See note 2.2.

The notes on pages 83 to 205 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018 (*Expressed in Hong Kong dollars*)

		Attributable to equity shareholders of the Company																	
		Share capital																	
	Note	Ordinary shares $'000	Redeemable convertible preference shares $'000	Share premium $'000	Contributed surplus $'000	Capital redemption reserve $'000	Merger reserve $'000	Land and buildings revaluation reserve $'000	Available-for-sale financial assets revaluation reserve $'000	PRC statutory reserves $'000	Treasury shares $'000	Shares held for Share Award Scheme $'000	Employee share-based compensation reserve# $'000	Goodwill reserve $'000	Exchange reserve $'000	Retained profits $'000	Total $'000	Non-controlling interests $'000	Total equity $'000
At 1 January 2017		104,071	8,496	1,755,891	508,172	223	(1,603,030)	68,355	55,865	10,965	(10,837)	(61,447)	60,760	(3,067)	(134,292)	4,441,175	5,201,300	319,271	5,520,571
Profit for the year		–	–	–	–	–	–	–	–	–	–	–	–	–	–	229,872	229,872	18,260	248,132
Other comprehensive income for the year:																			
Net change in fair value of available-for-sale financial assets		–	–	–	–	–	–	–	33,442	–	–	–	–	–	–	–	33,442	–	33,442
Exchange differences on translation of financial statements of operations outside Hong Kong		–	–	–	–	–	–	–	–	–	–	–	–	–	303,418	–	303,418	34,544	337,962
Release of exchange reserve upon step-acquisition		–	–	–	–	–	–	–	–	–	–	–	–	–	(1,091)	–	(1,091)	–	(1,091)
Share of other comprehensive income of associates		–	–	–	–	–	–	5,986	–	–	–	–	–	–	(750)	–	5,236	–	5,236
Total comprehensive income for the year		–	–	–	–	–	–	5,986	33,442	–	–	–	–	–	301,577	229,872	570,877	52,804	623,681
Issue of bonus shares		28,142	–	(28,142)	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Release of reserve upon step-acquisition		–	–	–	–	–	–	(5,986)	–	–	–	–	–	–	–	5,986	–	–	–
Redemption of redeemable convertible preference shares	39	–	(286)	(11,182)	–	–	–	–	–	–	–	–	–	–	–	–	(11,468)	–	(11,468)
Transfer of employee share-based compensation reserve upon lapse of share options		–	–	–	–	–	–	–	–	–	–	–	(50,752)	–	–	50,752	–	–	–
Recognition of equity-settled share-based compensation: share award and share options		–	–	–	–	–	–	–	–	–	–	–	4,736	–	–	–	4,736	–	4,736
Vesting of shares awarded under Share Award Scheme		–	–	–	–	–	–	–	–	–	–	372	(333)	–	–	(39)	–	–	–
At 31 December 2017 (Note)		132,213	8,210	1,716,567	508,172	223	(1,603,030)	68,355	89,307	10,965	(10,837)	(61,075)	14,411	(3,067)	167,285	4,727,746	5,765,445	372,075	6,137,520

		Attributable to equity shareholders of the Company																	
		Share capital																	
	Note	Ordinary shares $'000	Redeemable convertible preference shares $'000	Share premium $'000	Contributed surplus $'000	Capital redemption reserve $'000	Merger reserve $'000	Land and buildings revaluation reserve $'000	Available-for-sale financial assets revaluation reserve $'000	PRC statutory reserves $'000	Treasury shares $'000	Shares held for Share Award Scheme $'000	Employee share-based compensation reserve# $'000	Goodwill reserve $'000	Exchange reserve $'000	Retained profits $'000	Total $'000	Non-controlling interests $'000	Total equity $'000
At 1 January 2018		132,213	8,210	1,716,567	508,172	223	(1,603,030)	68,355	89,307	10,965	(10,837)	(61,075)	14,411	(3,067)	167,285	4,727,746	5,765,445	372,075	6,137,520
Impact on initial application of HKFRS 9	2.2	–	–	–	–	–	–	–	(89,307)	–	–	–	–	–	–	89,307	–	–	–
Adjusted balance at 1 January 2018		132,213	8,210	1,716,567	508,172	223	(1,603,030)	68,355	–	10,965	(10,837)	(61,075)	14,411	(3,067)	167,285	4,817,053	5,765,445	372,075	6,137,520
Profit for the year		–	–	–	–	–	–	–	–	–	–	–	–	–	–	140,003	140,003	730	140,733
Other comprehensive income for the year:																			
Exchange differences on translation of financial statements of operations outside Hong Kong		–	–	–	–	–	–	–	–	–	–	–	–	–	(261,832)	–	(261,832)	(24,960)	(286,792)
Share of other comprehensive income of associates		–	–	–	–	–	–	–	–	–	–	–	–	–	(1)	–	(1)	–	(1)
Total comprehensive income for the year		–	–	–	–	–	–	–	–	–	–	–	–	–	(261,833)	140,003	(121,830)	(24,230)	(146,060)
Redemption of redeemable convertible preference shares	39	–	(396)	(15,432)	–	–	–	–	–	–	–	–	–	–	–	–	(15,828)	–	(15,828)
Transfer of employee share-based compensation reserve upon lapse of share options		–	–	–	–	–	–	–	–	–	–	–	(7,830)	–	–	7,830	–	–	–
Recognition of equity-settled share-based compensation: share award and share options		–	–	–	–	–	–	–	–	–	–	–	1,915	–	–	–	1,915	–	1,915
At 31 December 2018		132,213	7,814	1,701,135	508,172	223	(1,603,030)	68,355	–	10,965	(10,837)	(61,075)	8,496	(3,067)	(94,548)	4,964,886	5,629,702	347,845	5,977,547

Merger reserve arose from the Group reorganisation in 1992 and the business combinations under common control in respect of the acquisitions of certain fellow subsidiaries in 2007 and certain related companies ultimately controlled by the substantial shareholder of the Company in 2011 and 2013.

Employee share-based compensation reserve comprises the share option reserve and the share award reserve.

Note: The Group has initially applied HKFRS 9 at 1 January 2018. Under the transition method chosen, comparative information is not restated. See note 2.2.

The notes on pages 83 to 205 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2018 (*Expressed in Hong Kong dollars*)

	Note	**2018** **$'000**	2017 $'000
Operating activities			
Profit before tax		**193,974**	303,749
Adjustments for:			
Finance costs	7	**151,278**	127,048
Share of losses of associates	17	**13**	604
Share of profits of joint ventures	18	**(402)**	–
Interest income	5	**(2,532)**	(4,362)
Gain on disposal of items of property, plant and equipment	5	**(726)**	(220)
Gain on disposal of an investment property	5	**–**	(42,080)
Fair value gain on investment properties inclusive of investment properties presented as non-current assets classified as held for sale		**(315,643)**	(289,053)
Fair value loss on financial assets measured at fair value through profit or loss		**1,092**	2,462
Fair value loss/(gain) on foreign exchange forward contracts	6	**102,391**	(19,426)
Impairment loss on amounts due from non-controlling shareholder of subsidiaries	6	**25,752**	–
Equity-settled share award and share options expenses	6	**1,915**	4,736
Gain on disposal of investment in a subsidiary	5	**–**	(88,984)
Gain on disposal of financial assets measured at fair value through profit or loss	5	**(5,767)**	–
Impairment loss of property, plant and equipment	5	**–**	8,084
Impairment of advances to associates	17	**14**	16
Impairment loss on trade receivables	6	**16,131**	23,277
(Reversal of impairment loss)/impairment loss on other receivables	6	**(3,635)**	10,514
Write-back of trade payables	5	**(8,738)**	(428)
Write-back of other payables	5	**(4,599)**	(1,082)
Provision for inventories	6	**7,652**	26,084
Write-off of property, plant and equipment	5	**17**	156
Write-off of bearer plants	5	**1,100**	9,399
Dividend income from listed investments	5	**(402)**	(339)
Depreciation	6	**51,705**	49,963
Amortisation of prepaid land lease payments	6	**46,015**	44,685
Changes in working capital:			
Decrease/(increase) in inventories		**27,695**	(150,522)
Increase in properties under development		**(356,452)**	(210,355)
(Increase)/decrease in trade receivables		**(77,980)**	56,492
Increase in prepayments, deposits and other receivables and foreign exchange forward contracts		**(155,592)**	(76,121)
Increase in trade payables		**8,469**	9,355
Increase in other payables and accruals and foreign exchange forward contracts		**254,499**	197,565
Decrease in provision for severance payment		**(6)**	(53)

For the year ended 31 December 2018 *(Expressed in Hong Kong dollars)*

	Note	**2018** **$'000**	2017 $'000
Cash used in operations		**(42,762)**	(8,836)
Hong Kong Profits Tax paid		**(10,019)**	(28,843)
The People's Republic of China ("PRC") enterprise income tax paid		**(13,696)**	(13,533)
Net cash used in operating activities		**(66,477)**	(51,212)
Investing activities			
Purchases of items of property, plant and equipment		**(52,327)**	(39,750)
Additions to investment properties	13(a)	**(369)**	(3,049)
Additions to prepaid land lease payments		**(36,671)**	(41,085)
Additions to construction in progress	15	**(1,860)**	(10,347)
Additions to bearer plants	19	**(103)**	(2,034)
Purchases of financial assets measured at fair value through profit or loss		**–**	(2)
Advances to an associate		**(14)**	(16)
Interest received		**2,532**	4,362
Proceeds from disposal of an investment property		**–**	110,880
Proceeds from disposal of items of property, plant and equipment		**2,276**	339
Payment for settlement of foreign exchange forward contracts		**–**	(6,234)
Net cash outflow from acquisition of a subsidiary		**–**	(19,945)
Proceeds from disposal of a subsidiary		**–**	102,000
Proceeds from disposal of financial assets measured at fair value through profit or loss and other non-current assets		**8,200**	–
Decrease in amounts due from affiliates		**–**	75,500
Dividend income from associates		**–**	738
Dividend income from listed investments		**322**	–
Decrease/(increase) in bank deposits with original maturity over three months		**10,207**	(156)
Increase in non-current prepayments and deposits		**(4,702)**	(2,311)
Net cash (used in)/generated from investing activities		**(72,509)**	168,890

Consolidated Cash Flow Statement

For the year ended 31 December 2018 *(Expressed in Hong Kong dollars)*

	Note	**2018 $'000**	2017 $'000
Financing activities			
New bank loans	29	**3,254,477**	3,354,326
Repayment of bank loans	29	**(2,966,706)**	(3,152,270)
Increase in trust receipt loans	29	**69,799**	35,546
Interest and other borrowing costs paid	29	**(176,292)**	(149,900)
Increase in amount due to a related party	29	**134,525**	–
(Increase)/decrease in restricted bank deposits	33	**(1,510)**	2,387
Redemption of redeemable convertible preference shares	39	**(15,828)**	(11,468)
Increase in amounts due to non-controlling shareholders of subsidiaries	29	**3,574**	2,701
Net cash generated from financing activities		**302,039**	81,322
Net increase in cash and cash equivalents		**163,053**	199,000
Cash and cash equivalents at the beginning of the year		**672,798**	459,302
Effect of foreign exchange rate changes, net		**(12,760)**	14,496
Cash and cash equivalents at the end of the year		**823,091**	672,798
Analysis of balances of cash and cash equivalents			
Cash and bank balances	29	**847,112**	713,029
Less: Pledged bank deposits	33	**(22,123)**	(20,613)
Bank deposits with original maturity over three months	29	**–**	(10,207)
Bank overdrafts	33	**(1,898)**	(9,411)
Cash and cash equivalents as stated in the consolidated cash flow statement		**823,091**	672,798

The notes on pages 83 to 205 form part of these financial statements.

Notes to the Financial Statements

(Expressed in Hong Kong dollars)

1 CORPORATE INFORMATION

The Company was incorporated in the Cayman Islands as an exempted limited company. Its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The registered office of the Company is located at P.O. Box 31119, Grand Pavilion, Hibiscus Way, 802 West Bay Road, Grand Cayman, KY1-1205, Cayman Islands.

The Company is an investment holding company. The principal subsidiaries are engaged in the trading and manufacturing of toys, property investment and development, and agriculture and forestry.

2.1 STATEMENT OF COMPLIANCE

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). Significant accounting policies adopted by the Group are disclosed below. These financial statements are presented in Hong Kong dollars and all figures are rounded to the nearest thousand ($'000") unless otherwise indicated.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 2.2 provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

2.1 STATEMENT OF COMPLIANCE *(Continued)*

Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2018 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's investment in associates and joint ventures.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

- investment properties;
- agricultural produce;
- financial assets measured at fair value through profit or loss ("FVPL"); and
- derivative financial instruments;

Non-current assets and disposal groups held for sale are stated at the lower of carrying amount and fair value less costs to sell (see note 2.4(i)).

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing 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.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 3.

2.2 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

(i) HKFRS 9, *Financial instruments*

(ii) HKFRS 15, *Revenue from contracts with customers*

(iii) HK(IFRIC) 22, *Foreign currency transactions and advance consideration*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

The Group has been impacted by HKFRS 9 in relation to classification of financial assets and measurement of credit losses, and impacted by HKFRS 15 in relation to presentation of contract liabilities. Details of the changes in accounting policies are disclosed in note 2.2(i) for HKFRS 9 and note 2.2(ii) for HKFRS 15. Under the transition methods chosen, the Group recognises cumulative effect of the initial application of HKFRS 9 and HKFRS 15 as an adjustment to the opening balance of equity at 1 January 2018, comparative information is not restated.

(i) HKFRS 9, *Financial instruments*

HKFRS 9 replaces HKAS 39, *Financial instruments: recognition and measurement*. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Group has applied HKFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. The Group has recognised the cumulative effect of initial application as an adjustment to the opening equity at 1 January 2018. Therefore, comparative information continues to be reported under HKAS 39.

2.2 CHANGES IN ACCOUNTING POLICIES *(Continued)*

(i) HKFRS 9, *Financial instruments* (Continued)

The following table summarises the impact of transition to HKFRS 9 on retained profits and available-for-sale financial assets revaluation reserve at 1 January 2018:

	$'000
Retained profits	
Transferred from available-for-sale financial assets revaluation reserve relating to financial assets now measured at FVPL and increase in retained profits at 1 January 2018	89,307
Available-for-sale financial assets revaluation reserve	
Transferred to retained profits relating to financial assets now measured at FVPL and decrease in available-for-sale financial assets revaluation reserve at 1 January 2018	(89,307)

Further details of the nature and effect of the changes to previous accounting policies and the transition approach are set out below:

A. *Classification of financial assets and financial liabilities*

HKFRS 9 categorises financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income ("FVOCI") and at FVPL. These supersede HKAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics.

2.2 CHANGES IN ACCOUNTING POLICIES *(Continued)*

(i) HKFRS 9, *Financial instruments (Continued)*

A. Classification of financial assets and financial liabilities (Continued)

The following table shows the original measurement categories for each class of the Group's financial assets under HKAS 39 and reconciles the carrying amounts of those financial assets determined in accordance with HKAS 39 to those determined in accordance with HKFRS 9:

	HKAS 39 carrying amount at 31 December 2017	Reclassification	HKFRS 9 carrying amount at 1 January 2018
	$'000	$'000	$'000
Financial assets measured at FVPL	–	106,902	106,902
Financial assets classified as available-for-sale under HKAS 39	106,902	(106,902)	–

For an explanation of how the Group classifies and measures financial assets and recognises related gains and losses under HKFRS 9, see respective accounting policy notes in notes 2.4(d), (l), (n)(i), (t) and (v).

The measurement categories for all financial liabilities remain the same. The carrying amounts for all financial liabilities at 1 January 2018 have not been impacted by the initial application of HKFRS 9.

The Group did not designate or de-designate any financial asset or financial liability at FVPL at 1 January 2018.

2.2 CHANGES IN ACCOUNTING POLICIES *(Continued)*

(i) HKFRS 9, *Financial instruments* (Continued)

B. *Credit losses*

HKFRS 9 replaces the "incurred loss" model in HKAS 39 with the "expected credit loss" ("ECL") model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" accounting model in HKAS 39.

The Group applies the new ECL model to the following items:

– financial assets measured at amortised cost (including cash and bank balances, trade receivables, financial assets included in prepayments, deposits and other receivables, advances to associate, amounts due from non-controlling shareholders of subsidiaries and amounts due from joint ventures); and

– lease receivables.

For further details on the Group's accounting policy for accounting for credit losses, see note 2.4(n).

(ii) HKFRS 15, *Revenue from contracts with customers*

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18, *Revenue*, which covered revenue arising from sale of goods and rendering of services, and HKAS 11, *Construction contracts*, which specified the accounting for construction contracts.

HKFRS 15 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

There is no significant impact on the Group's financial position and financial result upon initial application at 1 January 2018. Comparative information continues to be reported under HKASs 11 and 18.

2.2 CHANGES IN ACCOUNTING POLICIES *(Continued)*

(ii) HKFRS 15, *Revenue from contracts with customers (Continued)*

Further details of the nature and effect of the changes on previous accounting policies are set out below:

a. *Timing of revenue recognition*

Previously, revenue arising from provision of services was recognised over time, whereas revenue from sale of goods was generally recognised at a point in time when the risks and rewards of ownership of the goods had passed to the customers.

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. This may be at a single point in time or over time. HKFRS 15 identifies the following three situations in which control of the promised good or service is regarded as being transferred over time:

A. When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

B. When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

C. When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under HKFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that is considered in determining when the transfer of control occurs.

The adoption of HKFRS 15 does not have a significant impact on when the Group recognises revenue from sale of goods and revenue from provision of services.

2.2 CHANGES IN ACCOUNTING POLICIES *(Continued)*

(ii) HKFRS 15, *Revenue from contracts with customers* (Continued)

b. *Significant financing component*

HKFRS 15 requires an entity to adjust the transaction price for the time value of money when a contract contains a significant financing component, regardless of whether the payments from customers are received significantly in advance of revenue recognition or significantly deferred.

The adoption of HKFRS 15 does not have a significant impact on the Group's financial position and financial result as the Group's contracts with customers do not contain any significant financing component.

c. *Presentation of contract liabilities*

Under HKFRS 15, a contract liability, rather than a payable, is recognised when a customer pays non-refundable consideration, or is contractually required to pay non-refundable consideration and the amount is already due, before the Group recognises the related revenue.

To reflect these changes in presentation, the Group has made the reclassification adjustments at 1 January 2018 set out in note 32, as a result of the adoption of HKFRS 15.

(iii) HK(IFRIC) 22, *Foreign currency transactions and advance consideration*

This Interpretation provides guidance on determining "the date of the transaction" for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) arising from a transaction in which an entity receives or pays advance consideration in a foreign currency.

The Interpretation clarifies that "the date of the transaction" is the date on initial recognition of the non-monetary asset or liability arising from the payment or receipt of advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the date of the transaction for each payment or receipt should be determined in this way.

The adoption of HK(IFRIC) 22 does not have any significant impact on the Group's financial position and financial result.

(Expressed in Hong Kong dollars)

2.3 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2018

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2018 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
HKFRS 16, *Leases*	1 January 2019
HK(IFRIC) 23, *Uncertainty over income tax treatments*	1 January 2019
Annual Improvements to HKFRSs 2015-2017 Cycle	1 January 2019
Amendments to HKAS 28, *Long-term interest in associate and joint ventures*	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far the Group has identified some aspects of HKFRS 16 which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. While the assessment has been substantially completed for HKFRS 16, the actual impact upon the initial adoption of the standard may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standard is initially applied in the Group's interim financial report for the six months ending 30 June 2019. The Group may also change its accounting policy elections, including the transition options, until the standard is initially applied in the financial report.

2.3 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2018 *(Continued)*

HKFRS 16, *Leases*

As disclosed in note 2.4(k), currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group enters into some leases as the lessor and others as the lessee.

HKFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is twelve months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

HKFRS 16 will primarily affect the Group's accounting as a lessee of leases for properties which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease.

HKFRS 16 is effective for annual periods beginning on or after 1 January 2019. As allowed by HKFRS 16, the Group plans to use the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. The Group will therefore apply the new definition of a lease in HKFRS 16 only to contracts that are entered into on or after the date of initial application. In addition, the Group plans to elect the practical expedient for not applying the new accounting model to short-term leases and leases of low-value assets.

The Group plans to elect to use the modified retrospective approach for the adoption of HKFRS 16 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019 and will not restate the comparative information. As disclosed in note 44(b), at 31 December 2018 the Group's future minimum lease payments under non-cancellable operating leases amounted to $134,366,000 for factory premises and office properties, the majority of which is payable either between 1 and 5 years after the reporting date or in more than 5 years. Upon the initial adoption of HKFRS 16, the opening balances of lease liabilities and the corresponding right-of-use assets will be adjusted, after taking account of the termination options that are reasonably certain not to be exercised, but not yet committed to, of leases for agricultural lands and the effects of discounting, as at 1 January 2019.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position in accordance with note 2.4(o) depending on the nature of the liability.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 2.4(d)) or, when appropriate, the cost on initial recognition of an investment in an associate (see note 2.4(b)).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(a) Subsidiaries and non-controlling interests *(Continued)*

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 2.4(d)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale) (see note 2.4(d)).

(b) Associates and joint ventures

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A joint venture is an arrangement whereby the Group or Company and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

Investments in associates or joint ventures are accounted for in the consolidated financial statements under the equity method, unless they are classified as held for sale (or included in a disposal group that is classified as held for sale) (see note 2.4(i)). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). The cost of the investment includes purchase price, other costs directly attributable to the acquisition of the investment, and any direct investment into the associate or joint venture that forms part of the Group's equity investment. Thereafter 'the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see notes 2.4(c) and 2.4(n)(iii)). Any acquisition date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

When the Group's share of losses exceeds its interest in the associate or the joint venture the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with any other long-term interests that in Group's net investments in associates or joint ventures.

Unrealised profits and losses resulting from transactions between the Group and its associates and joint venture are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the assets transferred, in which case they are recognised immediately in profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Associates and joint ventures *(Continued)*

If an investment in an associate becomes an investment in a joint venture or vice versa, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 2.4(d)).

(c) Business combinations and goodwill

Business combinations, other than combinations of businesses under common control, are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Contingent liabilities assumed in a business combination which are present obligations at the date of acquisition are initially recognised at fair value, provided the fair value can be reliably measured. After their initial recognition at fair value, such contingent liabilities are recognised at the higher of the amount initially recognised, less accumulated amortisation where appropriate, and the amount that would be determined in accordance with note 2.4(w). Contingent liabilities assumed in a business combination that cannot be reliably fair valued or were not present obligations at the date of acquisition are disclosed in accordance with note 2.4(w).

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred, the amount recognised for non-controlling interests and the fair value of the Group's previously held equity interests in the acquiree over the identifiable net assets acquired and liabilities assumed. If the sum of the consideration transferred, the amount recognised for non-controlling interests and the fair value the Group's previously held equity interests in the acquiree is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Business combinations and goodwill *(Continued)*

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination.

Impairment is determined by assessing the recoverable amount of the cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units). An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the disposed operation and the portion of the cash-generating unit retained.

(d) Other investments in equity securities

The Group's policies for investments in equity securities, other than investments in subsidiaries, associates and joint ventures, are set out below.

Investments in equity securities are recognised/derecognised on the date the Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at FVPL for which transaction costs are recognised directly in profit or loss. These investments are subsequently accounted for as follows, depending on their classification.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Other investments in equity securities *(Continued)*

(A) *Policy applicable from 1 January 2018*

Investments other than equity investments

Non-equity investments held by the Group are classified into one of the following measurement categories:

– amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method (see note 2.4(y)).

– FVOCI – recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.

– FVPL if the investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

Equity Investments

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an irrevocable election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI, are recognised in profit or loss as other income in accordance with the policy set out in note 2.4(y).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Other investments in equity securities *(Continued)*

(B) *Policy applicable prior to 1 January 2018*

Investments in securities held for trading were classified as financial assets measured at FVPL. Any attributable transaction costs were recognised in profit or loss as incurred. At the end of each reporting period the fair value was remeasured, with any resultant gain or loss being recognised in profit or loss.

Investments which did not fall into the above category were classified as available-for-sale financial assets. At the end of each reporting period the fair value was remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the available-for-sale financial asset revaluation reserve (recycling). Dividend income from equity investments was recognised in profit or loss in accordance with the policies set out in note 2.4(y).

(e) Fair value measurement

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Fair value measurement *(Continued)*

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

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

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

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

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

(f) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

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

(ii) has significant influence over the Group; or

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

(b) An entity is related to the Group if any of the following conditions applies:

(i) the entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);

(ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Related parties *(Continued)*

(b) An entity is related to the Group if any of the following conditions applies: (Continued)

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

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

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

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

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

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(g) Property, plant and equipment (including bearer plants) and depreciation

Property, plant and equipment (including bearer plants), other than construction in progress, are stated at cost or valuation less accumulated depreciation and any impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Certain land and buildings are stated in the consolidated statement of financial position at amounts based on revaluations performed prior to 30 September 1995, less subsequent accumulated depreciation and amortisation and any impairment losses.

(Expressed in Hong Kong dollars)

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Property, plant and equipment (including bearer plants) and depreciation *(Continued)*

In accordance with the transitional provisions of paragraph 80A of HKAS 16, *Property, plant and equipment*, the Group's land and buildings which were carried at revalued amounts in the financial statements relating to periods ended before 30 September 1995 are not required to be revalued regularly. Accordingly, no revaluation of land and buildings is carried out subsequent to 30 September 1995. In previous years, the revaluation surplus arising on the revaluation of these assets was credited to the land and buildings revaluation reserve. Any future decreases in value of these assets will be dealt with as an expense to the extent that they exceed the balance, if any, on the revaluation reserve relating to a previous revaluation of the same asset. On the subsequent sale or retirement of a revalued asset, the attributable revaluation surplus is transferred to retained profits.

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

–	Leasehold land and buildings	Over the shorter of the lease terms and 2% to 5%
–	Furniture and leasehold improvements	Over the shorter of the lease terms, where applicable, and 20%
–	Machinery and equipment	10% to 25%
–	Moulds and tools	20% to 25%
–	Motor vehicles and vessels	20% to 25%
–	Bearer plants	2% to 5%

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of that item is allocated on a reasonable basis among the parts and each part is depreciated separately.

Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at least at each financial year end.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Property, plant and equipment (including bearer plants) and depreciation *(Continued)*

Construction in progress mainly represents properties under construction and bearer plants before maturity, which is stated at cost less any impairment losses, and is not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

(h) Investment properties

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

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

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

For a transfer from investment properties to owner-occupied properties, the deemed cost of a property for subsequent accounting is its fair value at the date of change in use. If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under "Property, plant and equipment (including bearer plants) and depreciation" up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is dealt with as a movement in the land and buildings revaluation reserve. If the total of this reserve is insufficient to cover a deficit, on an individual asset basis, the excess of the deficit is charged to profit or loss. On disposal of a revalued asset, the relevant portion of the land and buildings revaluation reserve realised in respect of previous valuations is transferred to retained profits as a movement in reserves.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Non-current assets and disposal groups held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets or disposal groups and its sale must be highly probable. All assets and liabilities of a subsidiary classified as a disposal group are reclassified as held for sale regardless of whether the Group retains a non-controlling interest in its former subsidiary after the sale.

Non-current assets and disposal groups (other than deferred tax assets, financial assets (other than investments in subsidiaries and associates) and investment properties) classified as held for sale are measured at the lower of their carrying amounts and fair values less costs to sell. Property, plant and equipment and intangible assets classified as held for sale are not depreciated or amortised.

(j) Agricultural produce

Agricultural produce comprises winter date, lychee, pear, apple and other fruits on fruit trees.

Winter date, lychee, pear, apple and other fruits harvested from fruit trees are measured at their fair values less costs to sell at the time of harvest. The fair values of winter date, lychee, pear, apple and other fruits are determined based on market prices in the local area. Such measurement is the cost at that date when applying HKAS 2, *Inventories*.

A gain or loss arising on initial recognition of agricultural produce at fair value less costs to sell shall be included in profit or loss for the period in which it arises.

Fair value represents the estimated selling price that the Group can obtain from selling such inventories in the market on an arm's length basis.

(k) Leases

Leases that transfer substantially all the rewards and risks of ownership of assets to the Group, other than legal title, are accounted for as finance leases. At the inception of a finance lease, the cost of the leased asset is capitalised at the present value of the minimum lease payments and recorded together with the obligation, excluding the interest element, to reflect the purchase and financing. Assets held under capitalised finance leases, including prepaid land lease payments under finance leases, are included in property, plant and equipment, and depreciated over the shorter of the lease terms and the estimated useful lives of the assets. The finance costs of such leases are charged to profit or loss so as to provide a constant periodic rate of charge over the lease terms.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Leases *(Continued)*

Assets acquired through hire purchase contracts of a financing nature are accounted for as finance leases, but are depreciated over their estimated useful lives.

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

Prepaid land lease payments under operating leases are initially stated at cost and subsequently recognised on the straight-line basis over the lease terms. When the lease payments cannot be allocated reliably between the land and buildings elements, the entire lease payments are included in the cost of the land and buildings as a finance lease in property, plant and equipment.

(l) Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration.

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see note 2.4(n)(i)).

(m) Derecognition of financial assets

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

– the rights to receive cash flows from the asset have expired; or

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Derecognition of financial assets *(Continued)*

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

(n) Credit losses and impairment of assets

(i) *Credit losses from financial instruments and lease receivables*

(A) *Policy applicable from 1 January 2018*

The Group recognises a loss allowance for ECLs on the following items:

– financial assets measured at amortised cost (including cash and bank balances, trade receivables, financial assets included in prepayments, deposits and other receivables, advances to associate, amounts due from non-controlling shareholders of subsidiaries and amounts due from joint ventures); and

– lease receivables.

Financial assets measured at fair value, including financial assets measured at FVPL, equity securities measured at FVPL and derivative financial instruments are not subject to the ECL assessment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) Credit losses and impairment of assets *(Continued)*

(i) *Credit losses from financial instruments and lease receivables (Continued)*

(A) *Policy applicable from 1 January 2018 (Continued)*

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

– fixed-rate financial assets, trade receivables, financial assets included in prepayments, deposits and other receivables, advances to associate, amounts due from non-controlling shareholders of subsidiaries and amounts due from joint ventures: effective interest rate determined at initial recognition or an approximation thereof;

– lease receivables: discount rate used in the measurement of the lease receivables.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

– 12-month ECLs: these are losses that are expected to result from possible default events within the twelve months after the reporting date; and

– lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowance for trade receivables and lease receivables are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) Credit losses and impairment of assets *(Continued)*

(i) *Credit losses from financial instruments and lease receivables (Continued)*

(A) *Policy applicable from 1 January 2018 (Continued)*

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is 90 days past due. The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

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

– failure to make payments of principal or interest on their contractually due dates;

– an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);

– an actual or expected significant deterioration in the operating results of the debtor; and

– existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) Credit losses and impairment of assets *(Continued)*

(i) *Credit losses from financial instruments and lease receivables (Continued)*

(A) *Policy applicable from 1 January 2018 (Continued)*

Basis of calculation of interest income

Interest income recognised in accordance with note 2.4(y) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

– significant financial difficulties of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or

– the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

The gross carrying amount of a financial asset or lease receivable is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) Credit losses and impairment of assets *(Continued)*

(i) *Credit losses from financial instruments and lease receivables (Continued)*

(B) *Policy applicable prior to 1 January 2018*

Prior to 1 January 2018, an "incurred loss" model was used to measure impairment losses on financial assets not classified as at FVPL (e.g. trade and other receivables and available-for-sale investments). Under the "incurred loss" model, an impairment loss was recognised only when there was objective evidence of impairment. Objective evidence of impairment included:

– significant financial difficulties of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence existed, an impairment loss was determined and recognised as follows:

– For trade and other receivables and other financial assets carried at amortised cost, impairment loss was measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate, where the effect of discounting was material. This assessment was made collectively where these financial assets shared similar risk characteristics, such as similar past due status, and had not been individually assessed as impaired. Future cash flows for financial assets which were assessed for impairment collectively were based on historical loss experience for assets with credit risk characteristics similar to the collective group.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) Credit losses and impairment of assets *(Continued)*

(i) *Credit losses from financial instruments and lease receivables (Continued)*

(B) *Policy applicable prior to 1 January 2018 (Continued)*

If in a subsequent period the amount of an impairment loss decreased and the decrease could be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss was reversed through profit or loss. A reversal of an impairment loss was only recognised to the extent that it did not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

When the recovery of a trade debtor or other financial assets carried at amortised cost was considered doubtful but not remote, associated impairment losses were recorded using an allowance account. When the Group was satisfied that recovery was remote, the amount considered irrecoverable was written off against the gross carrying amount of those assets directly. Subsequent recoveries of amounts previously charged to the allowance account were reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly were recognised in profit or loss.

– For available-for-sale investments, the cumulative loss that had been recognised in the available-for-sale financial asset revaluation reserve (recycling) was reclassified to profit or loss. The amount of the cumulative loss that was recognised in profit or loss was the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

Impairment losses recognised in profit or loss in respect of available-for-sale equity securities were not reversed through profit or loss. Any subsequent increase in the fair value of such assets was recognised in other comprehensive income.

Impairment losses recognised in profit or loss in respect of available-for-sale debt securities were reversed if the subsequent increase in fair value could be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances were recognised in profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) Credit losses and impairment of assets *(Continued)*

(ii) *Impairment of other non-current assets*

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment (other than properties carried at revalued amounts);
- pre-paid interests in leasehold land classified as being held under an operating lease;
- construction in progress;
- bearer plants;
- goodwill;
- other non-current assets; and
- investments in subsidiaries, associates and joint ventures in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

- *Calculation of recoverable amount*

  The recoverable amount of an asset is the greater of its 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. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) Credit losses and impairment of assets *(Continued)*

(ii) *Impairment of other non-current assets* (Continued)

– *Recognition of impairment losses*

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

– *Reversals of impairment losses*

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(iii) *Interim financial reporting and impairment*

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with HKAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 2.4(n)(i) and (ii)).

Impairment losses recognised in an interim period in respect of goodwill are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Trade and other payables

Trade and other payables are initially recognised at fair value and are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(p) Interest-bearing borrowings

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

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

(q) Contract liabilities

A contract liability is recognised when the customer pays non-refundable consideration before the Group recognises the related revenue (see note 2.4(y)). A contract liability would also be recognised if the Group has an unconditional right to receive non-refundable consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see note 2.4(l)).

When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method (see note 2.4(y)).

(r) Derecognition of financial liabilities

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(s) Offsetting of financial instruments

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

(t) Derivative financial instruments

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

Any gains or losses arising from changes in fair value of derivatives are taken directly to profit or loss, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income and later reclassified to profit or loss when the hedged item affects profit or loss.

(u) Inventories

(i) *Trading and manufacturing of goods*

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and, in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) Inventories *(Continued)*

(ii) *Property development*

Inventories in respect of property development activities are carried at the lower of cost and net realisable value. Cost and net realisable values are determined as follows:

– *Property under development for sale*

The cost of properties under development for sale comprises specifically identified cost, including the acquisition cost of land, aggregate cost of development, materials and supplies, wages and other direct expenses, an appropriate proportion of overheads and borrowing costs capitalised (see note 2.4(aa)). Net realisable value represents the estimated selling price less estimated costs of completion and costs to be incurred in selling the property.

– *Completed property held for sale*

In the case of completed properties developed by the Group, cost is determined by apportionment of the total development costs for that development project, attributable to the unsold properties. Net realisable value represents the estimated selling price less costs to be incurred in selling the property.

The cost of completed properties held for sale comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

(v) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement. Cash and cash equivalents are assessed for ECL in accordance with the policy set out in note 2.4(n)(i).

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(w) Provisions and contingent liabilities

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

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

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events, are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

The Group carries a provision for severance payment in accordance with the relevant regulations in Mainland China. Compensation payable to employees upon termination of the employment contracts therewith are charged to the provision when incurred.

(x) Income tax

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(x) Income tax *(Continued)*

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

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

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(y) Revenue and other income

Income is classified by the Group as revenue when it arises from sales of goods, the provision of services or the use by others of the Group's assets under leases in the ordinary course of the Group's business.

Revenue is recognised when control over a product or service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Further details of the Group's revenue and other income recognition policies are as follows:

(a) sales of goods – revenue is recognised when the customer takes possession of and accepts the products. If the products are a partial fulfilment of a contract covering other goods and/or services, then the amount of revenue recognised is an appropriate proportion of the total transaction price under the contract, allocated between all the goods and services promised under the contract on a relative stand-alone selling price basis.

In the comparative period, revenue from sales of goods was recognised when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold.

(b) sales of properties – revenue arising from the sale of properties developed for sale in the ordinary course of business is recognised on the basis that control over ownership of the property has been passed to the customer, which is the point in time when the customer has the ability to direct the use of the property and obtain substantially all of the remaining benefits of the property. Deposits and instalments received on properties sold prior to the date of revenue recognition are included in the statement of financial position under contract liabilities (see note 2.4(q)) included in other payables and accruals.

In the comparative period, revenue from sales of properties was recognised upon the later of the signing of the sale and purchase agreement and the completion of the properties, which was taken to be the point in time when the risks and rewards of ownership of the property had passed to the buyer. Deposits and instalments received on properties sold properties sold prior to the date of revenue recognition were included in the statement of financial position under other payables included in other payables and accruals.

(c) service income and management fee income – revenue is recognised when services are rendered;

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(y) Revenue and other income *(Continued)*

(d) rental income receivable under operating leases – revenue is recognised in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset;

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

(f) dividend income is recognised when the shareholders' right to receive payment has been established.

(z) Employee benefits

(i) *Contributions to defined contribution retirement plans*

The Group operates a defined contribution staff retirement scheme registered under the Occupational Retirement Scheme Ordinance (the "ORSO Scheme") for certain employees (including certain directors), the assets of which are held separately from those of the Group in an independently administered fund. Contributions are made based on a percentage of the eligible employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the ORSO Scheme. When an employee leaves the ORSO Scheme prior to his/her interest in the Group's employer contributions vesting fully, the ongoing contributions payable by the Group may be reduced by the relevant amount of forfeited contributions.

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

Employees who joined the Group before 1 December 2000 had the option to join either one of the schemes. Employees who joined the Group on or after 1 December 2000 are only eligible to join the MPF Scheme.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(z) Employee benefits *(Continued)*

(i) *Contributions to defined contribution retirement plans (Continued)*

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central defined contribution retirement scheme operated by the local municipal government. These subsidiaries are required to contribute a percentage of its payroll costs to the central defined contribution retirement scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central defined contribution retirement scheme.

(ii) *Share-based payment transactions*

– *Share option scheme and share award scheme*

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

The cost of equity-settled transactions with employees for grants of the Company's own equity instruments is measured by reference to the fair value at the date at which they are granted. The fair value of share options and awarded shares granted to employees in an equity-settled share-based payment transaction is recognised as an employment cost with a corresponding increase in the employee share-based compensation reserve within equity. In respect of share options, the fair value is measured at grant date using a trinomial model, taking into account the terms and conditions upon which the options were granted (further details of which being set out in note 40 to the financial statements). In respect of awarded shares, the fair value is based on the closing price at the grant date. Where the employees have to meet vesting conditions before becoming unconditionally entitled to the share options and awarded shares, the total estimated fair value of the share options and awarded shares is spread over the vesting period, taking into account the probability that the share options and awarded shares will vest. Where awarded shares are not the shares in the Company or its group entity, the grant of such shares does not constitute a share-based payment arrangement, and is accounted for as a financial liability.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(z) Employee benefits *(Continued)*

(ii) *Share-based payment transactions (Continued)*

– *Share option scheme and share award scheme (Continued)*

During the vesting period, the number of share options and awarded shares that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to profit or loss for the year of the review with a corresponding adjustment to the employee share-based compensation reserve. On vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options and awarded shares that are vested (with a corresponding adjustment to the employee share-based compensation reserve).

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions where vesting is conditional upon a market or non-vesting condition, which are treated as vested irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

The equity amount for the share options is recognised in the employee share-based compensation reserve until either the option is exercised (whereupon it is transferred to share capital and the share premium account) or the option expires (whereupon it is released directly to retained profits).

– *Shares held for Share Award Scheme*

Where the shares of the Company are acquired under the Share Award Scheme, the consideration paid, including any directly attributable incremental costs, is presented as "shares held for Share Award Scheme" and deducted from total equity.

When the awarded shares are transferred to the awardees upon vesting, the related weighted average costs of the awarded shares vested are credited to "shares held for Share Award Scheme" and the related employment costs of the awarded shares vested are debited to the employee share-based compensation reserve. The difference between the related weighted average cost and the related employment costs of the awarded shares is transferred to retained profits.

Where the shares held for Share Award Scheme are revoked and the revoked shares are disposed of, the related gain or loss from disposal of revoked shares is transferred to retained profits and not recognised in profit or loss.

Where cash or non-cash dividend distribution is declared in respect of the shares held for Share Award Scheme, such cash dividend or fair value of the non-cash dividend is transferred to retained profits with no gain or loss recognised in the statement of profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(z) Employee benefits *(Continued)*

(ii) *Share-based payment transactions (Continued)*

– *Shares held for Share Award Scheme (Continued)*

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

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

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

(aa) Borrowing costs

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(bb) Dividends and distributions

Final dividends and distributions proposed by the directors are classified as a separate allocation of retained profits within equity, until they have been approved by the shareholders in a general meeting. When these dividends and distributions have been approved by the shareholders and declared, they are recognised as a liability.

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

(cc) Foreign currencies

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

The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e. translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain subsidiaries and associates outside Hong Kong are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange reserve. On disposal of an operation outside Hong Kong, the component of other comprehensive income relating to that particular operation is recognised in profit or loss.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(cc) Foreign currencies *(Continued)*

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

(dd) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

(ee) Preference share capital

Preference share capital is classified as equity if it is non-redeemable, or redeemable only at the Company's option, and any dividends are discretionary. Dividends on preference share capital classified as equity are recognised as distributions within equity.

Preference share capital is classified as a liability if it is redeemable on a specific date or at the option of the shareholders, or if dividend payments are not discretionary. The liability is recognised in accordance with the Group's policy for interest-bearing borrowings set out in note 2.4(p) and accordingly dividends thereon are recognised on an accrual basis in profit or loss as part of finance costs.

3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

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

3 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES *(Continued)*

(i) Estimation of fair value of investment properties and investment properties presented as non-current assets classified as held for sale

At the end of each reporting period, investment properties and investment properties presented as non-current assets classified as held for sale are stated at fair value based on the valuations performed by an independent professionally qualified valuer. Such valuations were based on certain assumptions and estimates, which are subject to uncertainty and might materially differ from the actual results. In making estimation, information from current prices in an active market for similar properties has been considered and assumptions that are mainly based on the existing market conditions have been applied. Further details, including the key assumptions used for fair value measurement of investment properties and investment properties presented as non-current assets classified as held for sale, are given in notes 13 and 30, respectively, to the financial statements.

(ii) Estimated net realisable value of properties under development

In determining whether provisions should be made to the Group's properties under development, the directors of the Company takes into consideration the current market environment and the estimated market value (i.e. the estimated selling price less estimated costs to sell) less estimated costs to completion of the properties. A provision is made if the estimated net realisable value is less than the carrying amount. If the actual net realisable value of properties under development is less than expected as a result of a change in market condition and/or significant variation in the development cost, material provision for losses may result. No provision for losses was made for both the current and prior years.

(iii) Taxation

As detailed in note 10, there is a tax audit initiated on the Hong Kong tax affair of certain subsidiaries of the Group for which the ultimate tax determination is uncertain up to the date of issue of these financial statements. Where the final tax outcome of such tax audit is different from initial estimate, such difference could have material impact on the income tax in the period when such a determination is made.

(Expressed in Hong Kong dollars)

4 REVENUE AND SEGMENT REPORTING

(A) Revenue

Revenue represents the net invoiced value of goods sold after allowances for returns and trade discounts, the value of services rendered and gross rental income received and receivable from investment properties during the year.

(i) *Disaggregation of revenue*

Disaggregation of revenue from contracts with customers by major products or service lines is as follows:

	2018 $'000	2017 $'000
Revenue from contracts with customers within the scope of HKFRS 15		
– Sale of merchandise from trading and manufacturing businesses	**4,007,246**	3,692,043
– Sale of agricultural produce	**9,717**	14,327
	4,016,963	3,706,370
Revenue from other sources		
– Gross rentals from investment properties	**211,234**	195,426
	4,228,197	3,901,796

Disaggregation of revenue from contracts with customers by geographic markets is disclosed in note 4(B)(b).

(ii) *Revenue expected to be recognised in the future arising from contracts with customers in existence at the reporting date*

At 31 December 2018, the cumulative aggregate amount of revenue expected to be recognised in the consolidated statement of profit or loss in the future from pre-completion sales contracts entered into in relation to the Group's properties under development in mainland China pending transfer of control amounted to $417,600,000 which will be recognised when the pre-sold properties are accepted by the customers. The Group will recognise the expected revenue in future on the basis that control over ownership of the property has been passed to the customer, which is expected to occur within the next twelve months.

The Group has applied practical expedient in paragraph 121 of HKFRS 15 to its sale of merchandise from trading and manufacturing businesses and sale of agricultural produce to exempt the disclosure of revenue expected to be recognised in the future arising from contracts with customers in existence at the reporting date with performance obligation is part of a contract that has an original expected duration of one year or less.

4 REVENUE AND SEGMENT REPORTING *(Continued)*

(B) Segment reporting

For management purposes, the Group is organised into business units based on their products and services and has four reportable operating segments as follows:

(a) the trading and manufacturing segment is engaged in trading and manufacturing of merchandises including toys, footwear products and leather products;

(b) the property investment and development segment is engaged in property investment and development;

(c) the agriculture and forestry segment is engaged in the cultivation of fruit trees and crops, rearing of livestock and aquatic products, forestation and sale of relevant agricultural produces; and

(d) the investment holding segment comprises, principally, the Group's investment holding related management functions.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment results, which is a measure of adjusted profit/(loss) before tax. The adjusted profit/(loss) before tax is measured consistently with the Group's profit before tax except that share of profits and losses of associates and joint ventures and finance costs are excluded from such measurement.

Segment assets exclude investments in associates, investments in joint ventures and tax recoverable as these assets are managed on a group basis.

Segment liabilities exclude tax payable and deferred tax liabilities as these liabilities are managed on a group basis.

Inter-segment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

(Expressed in Hong Kong dollars)

4 REVENUE AND SEGMENT REPORTING *(Continued)*

(B) Segment reporting *(Continued)*

(a) Business segments

The following tables present revenue, profit and certain assets, liabilities and expenditure information for the Group's business segments for the years ended 31 December 2018 and 2017.

	Trading and manufacturing		Property investment and development		Agriculture and forestry		Investment holding		Group	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
	$'000	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000	**$'000**	$'000
Segment revenue										
External sales	**4,007,246**	3,692,043	**211,234**	195,426	**9,717**	14,327	**–**	–	**4,228,197**	3,901,796
Segment results	**137,763**	91,416	**356,441**	515,546	**(58,708)**	(48,515)	**(90,633)**	(127,046)	**344,863**	431,401
Reconciliation:										
– Share of (losses)/ profits of associates	**(1)**	(605)	**–**	–	**–**	–	**(12)**	1	**(13)**	(604)
– Share of profits of joint ventures	**–**	–	**–**	–	**–**	–	**402**	–	**402**	–
– Finance costs									**(151,278)**	(127,048)
Profit before tax									**193,974**	303,749

4 REVENUE AND SEGMENT REPORTING *(Continued)*

(B) Segment reporting *(Continued)*

(a) Business segments *(Continued)*

	Note	Trading and manufacturing 2018 $'000	Trading and manufacturing 2017 $'000	Property investment and development 2018 $'000	Property investment and development 2017 $'000	Agriculture and forestry 2018 $'000	Agriculture and forestry 2017 $'000	Investment holding 2018 $'000	Investment holding 2017 $'000	Group 2018 $'000	Group 2017 $'000
Segment assets		**2,193,332**	2,045,659	**10,954,464**	10,457,407	**140,890**	158,722	**216,896**	241,756	**13,505,582**	12,903,544
Reconciliation:											
– Investments in associates		**20**	22	**–**	–	**–**	–	**–**	1,352	**20**	1,374
– Investments in joint ventures		**–**	–	**–**	–	**–**	–	**2,224**	–	**2,224**	–
– Tax recoverable										**58,592**	57,300
Total assets										**13,566,418**	12,962,218
Segment liabilities		**2,819,947**	2,494,522	**3,642,242**	3,332,765	**41,598**	25,525	**141,220**	12,794	**6,645,007**	5,865,606
Reconciliation:											
– Tax payable										**62,531**	54,998
– Deferred tax liabilities										**881,333**	904,094
Total liabilities										**7,588,871**	6,824,698
Other segment information:											
Capital expenditure		**52,537**	49,441	**4,397**	55,078	**46,523**	45,473	**1,374**	–	**104,831**	149,992
Depreciation and amortisation		**39,702**	38,372	**7,597**	6,167	**50,153**	49,816	**268**	293	**97,720**	94,648
Provision for inventories	6	**7,652**	26,084	**–**	–	**–**	–	**–**	–	**7,652**	26,084
Impairment loss on trade receivables	6 & 25	**7,452**	16,691	**8,679**	6,586	**–**	–	**–**	–	**16,131**	23,277
(Reversal of impairment)/ impairment loss of other receivables	6	**(3,635)**	8,564	**–**	1,950	**–**	–	**–**	–	**(3,635)**	10,514
Write-off of bearer plants	5	**–**	–	**–**	–	**1,100**	9,399	**–**	–	**1,100**	9,399
Write-off of property, plant and equipment		**–**	156	**17**	–	**–**	–	**–**	–	**17**	156
Impairment loss on amounts due from non-controlling shareholders of subsidiaries		**–**	–	**25,752**	–	**–**	–	**–**	–	**25,752**	–
Impairment loss on property, plant and equipment	5 & 12	**–**	8,084	**–**	–	**–**	–	**–**	–	**–**	8,084

Capital expenditure consists of the amounts incurred for the additions to property, plant and equipment, investment properties, prepaid land lease payments, construction in progress, bearer plants, financial assets measured at FVPL, including the deposits and amounts prepaid for the above, and cash payments for acquisition of subsidiaries.

4 REVENUE AND SEGMENT REPORTING *(Continued)*

(B) Segment reporting *(Continued)*

(b) Geographical segments

(i) *Revenue from external customers*

	2018 $'000	2017 $'000
PRC including Hong Kong and Macau	**390,186**	369,333
The United States of America	**2,429,034**	2,045,478
Europe	**799,588**	812,355
Japan	**62,217**	73,330
Others	**547,172**	601,300
	4,228,197	3,901,796

The revenue information above is based on the destination to which goods and services are delivered.

(ii) *Non-current assets*

	2018 $'000	2017 $'000
Hong Kong	**3,074,607**	1,257,419
Mainland China	**5,157,505**	5,324,357
Others	**5,395**	5,533
	8,237,507	6,587,309

The non-current assets information above is based on the location of assets, and excludes financial assets measured at FVPL, available-for-sale financial assets, investments in associates and investments in joint ventures.

4 REVENUE AND SEGMENT REPORTING *(Continued)*

(B) Segment reporting *(Continued)*

(b) Geographical segments *(Continued)*

(iii) *Information about major customers with revenue derived from whom amounted to 10% of the Group's revenue or above*

Revenue from customers of the corresponding years distributing over 10% of the total sales of the Group are as follows:

	2018 **$'000**	2017 $'000
Customer A	**1,443,137**	N/A[1]
Customer B	**824,448**	1,349,729
Customer C	**N/A[1]**	674,546

[1] The corresponding revenue did not contribute over 10% of the total revenue of the Group.

5 OTHER INCOME AND GAINS, NET

An analysis of other income and gains, net is as follows:

	Note	**2018** **$'000**	2017 $'000
Other income and gains, net			
Bank interest income		**2,476**	764
Interest income from related companies	46	**–**	3,296
Other interest income		**56**	302
Write-back of trade payables		**8,738**	428
Write-back of other payables		**4,599**	1,082
Gain on disposal of items of property, plant and equipment		**726**	220
Gain on disposal of financial assets measured at FVPL		**5,767**	–
Impairment loss on property, plant and equipment	12	**–**	(8,084)
Write-off of property, plant and equipment		**(17)**	(156)
Write-off of bearer plants		**(1,100)**	(9,399)
Dividend income from listed investments		**402**	339
Gain on disposal of interest in a subsidiary		**–**	88,984
Gain on disposal of an investment property		**–**	42,080
Subsidy income from government		**4,220**	4,924
Income from sale of scrap materials		**4,055**	3,435
Others		**37,556**	34,116
		67,478	162,331

(Expressed in Hong Kong dollars)

6 PROFIT BEFORE TAX

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

	Note	2018 $'000	2017 $'000
Cost of inventories sold		**3,643,633**	3,302,464
Depreciation	12 &19	**51,705**	49,963
Amortisation of prepaid land lease payments	14	**46,015**	44,685
Auditors' remuneration			
– audit services		**3,483**	3,382
– non-audit services		**7**	507
		3,490	3,889
Employee benefits expenses (including directors' remuneration (note 8)):			
Contributions to defined contribution retirement schemes*		**110,164**	100,071
Equity-settled share award and share options expense		**1,915**	4,736
Salaries, wages and other benefits		**1,387,013**	1,388,232
		1,499,092	1,493,039
Less: Employee benefits expenses capitalised to properties under development:			
Contributions to defined contribution retirement scheme		**(2,634)**	(2,747)
Salaries, wages and other benefits		**(27,675)**	(22,239)
		1,468,783	1,468,053
Operating lease rental in respect of land and buildings		**87,828**	71,037
Gross rental income from investment properties inclusive of investment properties presented as non-current assets classified as held for sale		**(211,234)**	(195,426)
Less: Direct operating expenses		**30,585**	28,044
Net rental income		**(180,649)**	(167,382)
Impairment loss on trade receivables	25	**16,131**	23,277
Impairment loss on amounts due from non-controlling shareholders of subsidiaries		**25,752**	–
Provision for inventories**	23	**7,652**	26,084
(Reversal of impairment loss)/impairment loss on other receivables		**(3,635)**	10,514
Fair value loss/(gain) on foreign exchange forward contracts***	27	**102,391**	(19,426)
Exchange loss/(gain), net		**3,605**	(23,713)

6 PROFIT BEFORE TAX *(Continued)*

* At 31 December 2018 and 2017, the Group had no forfeited contributions available to reduce its contributions to the defined contribution retirement schemes in future years.

** The amount (included in cost of sales) represents the net charge/credit recognised in respect of provision/write-back of provision against inventories to write down the inventories to their estimated net realisable values.

*** Fair value loss on foreign exchange forward contracts of $102,391,000 (2017: gain of $19,426,000) was included in cost of sales.

7 FINANCE COSTS

An analysis of finance costs is as follows:

	2018	2017
	$'000	$'000
Interest on bank loans, overdrafts and other borrowings	**179,795**	143,073
Less: Amounts capitalised:		
– Interest	**(28,517)**	(16,025)
	151,278	127,048

The borrowing costs have been capitalised at a weighted average rate of 4.84% per annum (2017: 4.09%).

8 DIRECTORS' REMUNERATION

Directors' remuneration for the year, disclosed pursuant to the Listing Rules and section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	2018 $'000	2017 $'000
Fees	1,036	956
Other emoluments:		
– Salaries, allowances and benefits in kind	10,497	11,260
– Discretionary bonuses	–	–
– Retirement scheme contributions	326	286
	10,823	11,546
	11,859	12,502

The details of the principal terms and number of share awards granted to an executive director are disclosed in note 39.

(a) Independent non-executive directors

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

	2018 $'000	2017 $'000
Mr. Chiu Sin Chun	100	100
Mrs. Tse Wong Siu Yin Elizabeth	100	100
Mr. Yip Dicky Peter, J.P.	280	280
Sr Dr. Leung Tony Ka Tung (resigned on 14 June 2017)	–	54
Mr. Kam Yiu Shing Tony	100	17
	580	551

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

8 DIRECTORS' REMUNERATION *(Continued)*

(b) Executive directors and non-executive directors

2018

	Fees $'000	Salaries, allowances and benefits in kind $'000	Discretionary bonuses $'000	Retirement scheme contributions $'000	Total remuneration $'000
Executive directors:					
Mr. Ng Hung Sang	10	–	–	–	10
Ms. Cheung Choi Ngor	10	4,200	–	210	4,420
Mr. Richard Howard Gorges	10	1,800	–	90	1,900
Mr. Ng Yuk Yeung Paul	10	3,600	–	18	3,628
	40	9,600	–	318	9,958
Non-executive directors:					
Ms. Ng Yuk Mui Jessica	100	–	–	–	100
Mr. Ng Yuk Fung Peter (redesignated on 16 May 2018)	66	897	–	8	971
Mr. David Michael Norman	150	–	–	–	150
Ms. Li Yuen Yu Alice	100	–	–	–	100
	416	897	–	8	1,321
	456	10,497	–	326	11,279

(Expressed in Hong Kong dollars)

8 DIRECTORS' REMUNERATION *(Continued)*

(b) Executive directors and non-executive directors *(Continued)*

2017

	Fees $'000	Salaries, allowances and benefits in kind $'000	Discretionary bonuses $'000	Retirement scheme contributions $'000	Total remuneration $'000
Executive directors:					
Mr. Ng Hung Sang	10	–	–	–	10
Ms. Cheung Choi Ngor	10	3,200	–	160	3,370
Mr. Richard Howard Gorges	10	1,800	–	90	1,900
Mr. Ng Yuk Fung Peter	10	2,400	–	18	2,428
Mr. Ng Yuk Yeung Paul	10	2,600	–	18	2,628
Mr. Law Albert Yu Kwan (resigned on 1 July 2017)	5	1,260	–	–	1,265
	55	11,260	–	286	11,601
Non-executive directors:					
Ms. Ng Yuk Mui Jessica	100	–	–	–	100
Mr. David Michael Norman	150	–	–	–	150
Ms. Li Yuen Yu Alice (redesignated on 21 December 2017)	100	–	–	–	100
	350	–	–	–	350
	405	11,260	–	286	11,951

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2017: Nil).

The executive directors of the Company constitute senior management of the Group.

9 FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two (2017: two) directors whose remuneration is set out in details in note 8 above. Details of the remuneration of the remaining three (2017: three) highest paid employees for the year are set out below:

	2018	2017
	$'000	$'000
Salaries, allowances and benefits in kind	**7,189**	7,964
Discretionary bonuses	**959**	1,011
Retirement scheme contributions	**33**	36
Share awards	**–**	2,122
	8,181	11,133

The remuneration of the aforesaid remaining three (2017: three) highest paid employees fell within the following bands:

	Number of employees	
	2018	2017
$1,500,001 to $2,000,000	**1**	–
$2,000,001 to $2,500,000	**–**	1
$2,500,001 to $3,000,000	**1**	–
$3,500,001 to $4,000,000	**1**	1
$5,000,001 to $5,500,000	**–**	1
	3	3

The Company has granted share awards to certain highest paid employees in respect of their services to the Group. The fair value of such share awards has been recognised in profit or loss over the vesting period and the amount so recognised is included in the above highest paid employees' remuneration disclosure.

(Expressed in Hong Kong dollars)

10 INCOME TAX

Hong Kong Profits Tax has been provided at the rate of 16.5% (2017: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in respective countries/jurisdictions in which the Group operates.

	2018 $'000	2017 $'000
Current – Hong Kong		
Charge for the year	**11,427**	7,469
Over-provision in prior years	**(88)**	(1,372)
Current – Mainland China		
Charge for the year	**17,709**	14,194
Under-provision in prior years	**1,853**	2,921
Deferred tax (note 38)	**22,340**	32,405
Total tax charge for the year	**53,241**	55,617

A reconciliation of the notional tax expense on the Group's profit before tax at the Hong Kong Profits Tax rate to the actual tax expense is as follows:

	2018 $'000	2017 $'000
Profit before tax	**193,974**	303,749
Notional tax at the Hong Kong Profits Tax rate of 16.5% (2017: 16.5%)	**32,006**	50,119
Effect of different tax rates of subsidiaries operating in Mainland China and Taiwan	**3,061**	340
Tax effect of share of losses of associates	**2**	151
Tax effect of share of profits of joint ventures	**(66)**	–
Tax effect of non-deductible expenses	**82,553**	70,325
Tax effect of non-taxable income	**(77,022)**	(93,097)
Tax effect of unused tax losses not recognised	**21,974**	31,828
Tax losses utilised from prior years	**(3,666)**	(5,975)
Tax effect of prior years' unrecognised tax losses and temporary differences recognised	**(7,294)**	–
Under-provision in prior years	**1,765**	1,549
Others	**(72)**	377
Total tax charge for the year	**53,241**	55,617

10 INCOME TAX *(Continued)*

In prior years, the Inland Revenue Department ("IRD") initiated a tax audit on certain subsidiaries of the Group in relation to their trading and manufacturing arrangement. Pending resolution of the tax audit, the IRD has issued protective profits tax assessments ("PAs"). In this connection, the Group has lodged objections against these PAs and purchased tax reserve certificates in an aggregate amount of approximately HK$59,169,000, which has been recorded as tax recoverable in the consolidated statement of financial position as at 31 December 2018. Based on the latest development and available facts up to the date of these financial statements, the directors are of the opinion that the Group has grounds to support the tax filing position adopted for the above arrangement. Accordingly, no additional provision for Hong Kong Profits Tax is considered necessary in respect of the tax audit.

11 EARNINGS PER SHARE

The calculation of the basic earnings per share is based on the profit for the year attributable to equity shareholders of the Company of $140,003,000 (2017: $229,872,000), and the weighted average number of ordinary shares of 12,982,892,000 (2017: 12,981,705,000) in issue, after adjusting for the bonus issue, less shares held for the Share Award Scheme and treasury shares.

The calculation of diluted earnings per share is based on the profit for the year attributable to equity shareholders of the Company. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares as used in the basic earnings per share calculation and the weighted average number of ordinary shares assumed to have been issued at no consideration on vesting, and the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares, after adjusting for the bonus issue.

(Expressed in Hong Kong dollars)

11 EARNINGS PER SHARE *(Continued)*

The calculations of basic and diluted earnings per share are based on:

	2018	2017
	$'000	$'000
Earnings		
Profit attributable to equity shareholders of the Company used in the basic and diluted earnings per share calculation	**140,003**	229,872

	Number of shares	
	2018	2017
	'000	'000
Shares		
Weighted average number of ordinary shares used in the basic earnings per share calculation	**12,982,892**	12,981,705
Effect of redeemable convertible preference shares	**804,921**	835,617
Effect of shares held for Share Award Scheme	**206,161**	207,348
Weighted average number of ordinary shares used in the diluted earnings per share calculation	**13,993,974**	14,024,670

The Company's share options have no dilution effect for the years ended 31 December 2018 and 2017 because the exercise price of the Company's share options was higher than the average market price of the shares for both years and the share options are therefore anti-dilutive.

12 PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings $'000	Furniture and leasehold improvements $'000	Machinery and equipment $'000	Moulds and tools $'000	Motor vehicles and vessels $'000	Total $'000
Cost and valuation:						
At 1 January 2018	190,163	337,636	347,557	22,292	32,878	930,526
Exchange realignment	(2,203)	(1,767)	(3,379)	–	(748)	(8,097)
Additions	–	16,848	33,436	1,197	1,577	53,058
Transfer from investment properties (note 13)	7,181	–	–	–	–	7,181
Transfer from construction in progress (note 15)	–	2,308	–	–	–	2,308
Disposals	–	(22,041)	(36,762)	(8)	(2,174)	(60,985)
At 31 December 2018	195,141	332,984	340,852	23,481	31,533	923,991
Analysis of cost or valuation:						
At cost	147,632	332,984	340,852	23,481	31,533	876,482
At 31 December 1988 valuation	31,112	–	–	–	–	31,112
At 31 December 1989 valuation	5,220	–	–	–	–	5,220
At 31 December 1992 valuation	204	–	–	–	–	204
At 31 December 1994 valuation	10,973	–	–	–	–	10,973
	195,141	332,984	340,852	23,481	31,533	923,991
Accumulated depreciation and impairment:						
At 1 January 2018	122,127	293,232	287,815	19,718	27,069	749,961
Exchange realignment	(1,242)	(1,142)	(2,638)	–	(612)	(5,634)
Depreciation provided during the year (note 6)	7,856	14,798	22,315	945	2,503	48,417
Disposals	–	(21,685)	(35,560)	(6)	(2,167)	(59,418)
At 31 December 2018	128,741	285,203	271,932	20,657	26,793	733,326
Net book value:						
At 31 December 2018	66,400	47,781	68,920	2,824	4,740	190,665

(Expressed in Hong Kong dollars)

12 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

	Leasehold land and buildings $'000	Furniture and leasehold improvements $'000	Machinery and equipment $'000	Moulds and tools $'000	Motor vehicles and vessels $'000	Total $'000
Cost and valuation:						
At 1 January 2017	204,828	323,357	331,021	22,296	31,960	913,462
Exchange realignment	4,174	1,832	6,464	64	1,033	13,567
Additions	–	12,794	23,420	1,819	1,717	39,750
Transfer from construction in progress (note 15)	–	1,071	–	–	–	1,071
Disposal of a subsidiary (note 50)	(18,839)	–	–	–	–	(18,839)
Disposals	–	(1,418)	(13,348)	–	(1,662)	(16,428)
Write-offs	–	–	–	(1,887)	(170)	(2,057)
At 31 December 2017	190,163	337,636	347,557	22,292	32,878	930,526
Analysis of cost or valuation:						
At cost	142,654	337,636	347,557	22,292	32,878	883,017
At 31 December 1988 valuation	31,112	–	–	–	–	31,112
At 31 December 1989 valuation	5,220	–	–	–	–	5,220
At 31 December 1992 valuation	204	–	–	–	–	204
At 31 December 1994 valuation	10,973	–	–	–	–	10,973
	190,163	337,636	347,557	22,292	32,878	930,526
Accumulated depreciation and impairment:						
At 1 January 2017	118,216	278,000	267,906	20,714	25,763	710,599
Exchange realignment	2,606	1,380	5,166	58	798	10,008
Depreciation provided during the year (note 6)	7,987	15,267	19,925	677	2,306	46,162
Disposal of a subsidiary (note 50)	(6,682)	–	–	–	–	(6,682)
Impairment loss (note 5)	–	–	8,081	–	3	8,084
Disposals	–	(1,415)	(13,263)	–	(1,631)	(16,309)
Write-offs	–	–	–	(1,731)	(170)	(1,901)
At 31 December 2017	122,127	293,232	287,815	19,718	27,069	749,961
Net book value:						
At 31 December 2017	68,036	44,404	59,742	2,574	5,809	180,565

12 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The Group's land and buildings are situated in Hong Kong and Mainland China and are held under the following lease terms:

	2018	2017
	$'000	$'000
Leasehold land and buildings in Hong Kong:		
– Long term leases	**14,055**	14,979
Buildings in Mainland China		
– Medium term leases	**52,345**	53,057
	66,400	68,036

The Group is in the process of applying the land use right certificates for certain leasehold land in Mainland China on which buildings with carrying amount of approximately $33,812,000 (2017: $30,551,000) as at 31 December 2018 were erected. The directors do not expect any legal obstacle in obtaining the relevant title certificates.

Certain of the Group's land and buildings were revalued on or before 31 December 1994. The land and buildings were revalued at open market value based on their existing use. Since 1995, no further revaluation of the Group's land and buildings has been carried out as the Group has relied on the exemption from the requirement to carry out future revaluation of its property, plant and equipment, which were stated at valuation at that time, granted under the transitional provisions in paragraph 80A of HKAS 16.

Had the land and buildings been carried at cost less accumulated depreciation and impairment losses, the net book value of the Group's land and buildings at 31 December 2018 would have been approximately $49,775,000 (2017: $50,746,000).

At 31 December 2018, certain of the Group's property, plant and equipment, including leasehold land and buildings and their corresponding prepaid land lease payments were pledged to secure the banking facilities granted to the Group (note 33).

13 INVESTMENT PROPERTIES

(a) Investment properties

	2018 $'000	2017 $'000
Carrying amount at 1 January	**6,062,534**	6,405,099
Exchange realignment	**(255,723)**	335,898
Acquisition of a subsidiary (note 49)	**–**	42,235
Transfer from/(to) non-current assets classified as held for sale (note 30)*	**1,627,000**	(855,000)
Transfer to property, plant and equipment (note 12)	**(7,181)**	–
Additions	**369**	3,049
Disposals	**–**	(68,800)
Fair value gain	**299,643**	200,053
Carrying amount at 31 December	**7,726,642**	6,062,534

* At 31 December 2017, the Group committed to a plan to sell certain of its investment properties in Hong Kong which were classified as non-current assets classified as held for sale. During the year ended 31 December 2018, the plan was changed and these properties were transferred to investment properties accordingly.

The Group's investment properties are situated in Hong Kong, Taiwan and Mainland China and are held under the following lease terms:

	2018 $'000	2017 $'000
Hong Kong:		
– Long term leases	**519,570**	463,710
– Medium term leases	**2,503,300**	745,150
	3,022,870	1,208,860
Taiwan:		
– Freehold	**5,395**	5,535
Mainland China:		
– Medium term leases	**4,698,377**	4,848,139
	7,726,642	6,062,534

13 INVESTMENT PROPERTIES *(Continued)*

(a) Investment properties *(Continued)*

The Group's investment properties were revalued on 31 December 2018 by BMI Appraisals Limited, an independent professionally qualified valuer, at $7,726,642,000 (2017: $6,062,534,000) in aggregate, on an open market, existing use basis. Such investment properties are leased or available for lease to third parties under operating leases. Details about such operating lease arrangements are included in note 44(a) to the financial statements.

At 31 December 2018, certain investment properties of the Group were pledged and mortgaged to secure the banking facilities granted to the Group (note 33).

As 31 December 2018, certain investment properties of the Group with an aggregate value of $110,681,000 (2017: $109,270,000) were pledged to secure the employees resettlement reserve funds (included in provision for severance payments (note 37)) for certain subsidiaries of the Group.

The Group is in the process of applying the land use right certificates in respect of certain investment properties of the Group located in Mainland China amounting to approximately $581,528,000 as at 31 December 2018 (2017: $576,595,000). The directors do not expect any legal obstacle in obtaining the relevant title certificates.

At the end of each reporting period, the Group's management has discussion with the valuer on the valuation methodology and valuation results when the valuation is performed for financial reporting purposes. The investment properties comprised commercial and industrial properties.

Further particulars of the Group's investment properties are included on pages 207 to 213.

13 INVESTMENT PROPERTIES *(Continued)*

(b) Fair value hierarchy

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

	Fair value measurement as at 31 December 2018 using			
	Quoted prices in active markets (Level 1) $'000	**Significant observable inputs (Level 2) $'000**	**Significant unobservable inputs (Level 3) $'000**	**Fair value at 31 December 2018 $'000**
Recurring fair value measurement for:				
Commercial properties	**–**	**–**	**7,008,017**	**7,008,017**
Industrial properties	**–**	**–**	**718,625**	**718,625**
	–	**–**	**7,726,642**	**7,726,642**

	Fair value measurement as at 31 December 2017 using			
	Quoted prices in active markets (Level 1) $'000	Significant observable inputs (Level 2) $'000	Significant unobservable inputs (Level 3) $'000	Fair value at 31 December 2017 $'000
Recurring fair value measurement for:				
Commercial properties	–	–	5,407,544	5,407,544
Industrial properties	–	–	654,990	654,990
	–	–	6,062,534	6,062,534

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

13 INVESTMENT PROPERTIES *(Continued)*

(b) Fair value hierarchy *(Continued)*

Reconciliation of fair value measurements categorised within Level 3 of the fair value hierarchy:

	Commercial properties $'000	**Industrial properties $'000**
At 1 January 2018	**5,407,544**	**654,990**
Exchange realignment	**(244,171)**	**(11,552)**
Transfer from non-current assets classified as held for sale (note 30)	**1,627,000**	**–**
Transfer to property, plant and equipment	**(7,181)**	**–**
Additions	**369**	**–**
Fair value gain	**224,456**	**75,187**
At 31 December 2018	**7,008,017**	**718,625**
At 1 January 2017	5,814,211	590,888
Exchange realignment	321,726	14,172
Acquisition of a subsidiary	42,235	–
Transfer to non-current assets classified as held for sale (note 30)	(855,000)	–
Additions	3,049	–
Fair value gain	150,123	49,930
Disposals	(68,800)	–
At 31 December 2017	5,407,544	654,990

(Expressed in Hong Kong dollars)

13 INVESTMENT PROPERTIES *(Continued)*

(b) Fair value hierarchy *(Continued)*

Below is a summary of the valuation techniques and the key inputs used in the valuation of the Group's investment properties within Level 3 of the fair value hierarchy:

Properties	Valuation techniques	Rental rate/Unit price	Capitalisation rate
Situated in Hong Kong			
– Commercial	Investment approach	$18 – $166 per square foot (2017: $14 – $180 per square foot)	2.5% – 4.0% (2017: 2.7% – 4.0%)
– Industrial	Investment approach	$9 per square foot (2017: $8 per square foot)	2.8% – 3.3% (2017: 3.0% – 3.2%)
– Industrial	Comparison approach	N/A (2017: $4,300 – $7,800 per square foot)	N/A (2017: N/A)
Situated in Mainland China			
– Commercial	Investment approach	RMB12 – RMB458 per square metre (2017: RMB8 – RMB414 per square metre)	4.6% – 12.5% (2017: 4.6% – 12.5%)
– Commercial	Comparison approach	RMB17,000 – RMB67,000 per square metre (2017: RMB16,000 – RMB55,000 per square metre)	N/A (2017: N/A)
– Industrial	Investment approach	RMB4 – RMB14 per square metre (2017: RMB4 – RMB14 per square metre)	7.5% – 8.0% (2017: 6.5% – 8.0%)
Situated in Taiwan			
– Commercial	Comparison approach	TWD37,800 – TWD44,600 per square metre (2017: TWD36,000 – TWD45,000 per square metre)	N/A (2017: N/A)

Under the investment approach, the properties are valued by taking into account the current rents passing or the hypothetical rents and the reversionary potential of the tenancies if the properties have been or would be leased to tenants.

Under the comparison approach, the properties are valued on market basis assuming sales in their existing state with the benefit of vacant possession and by making reference to comparable sales evidence as available in the relevant markets. Appropriate adjustments are then made to account for the differences between such properties and their respective comparables in terms of age, time, location, floor level and other relevant factors.

Fair values of investment properties will increase if there were increases in rental rate or unit price, or a decrease in capitalisation rate.

(Expressed in Hong Kong dollars)

14 PREPAID LAND LEASE PAYMENTS

	2018 $'000	2017 $'000
Carrying amount at 1 January	**92,063**	89,992
Exchange realignment	**(4,016)**	5,671
Additions	**44,195**	41,085
Amortisation charged to profit or loss during the year (note 6)	**(46,015)**	(44,685)
Carrying amount at 31 December	**86,227**	92,063
Current portion included in prepayments, deposits and other receivables	**(8,402)**	(9,094)
Non-current portion	**77,825**	82,969

The Group's leasehold land is situated in Mainland China, and is held under the following lease terms:

	2018 $'000	2017 $'000
Long term leases	**31,982**	34,356
Medium term leases	**54,245**	57,707
	86,227	92,063

15 CONSTRUCTION IN PROGRESS

	2018 $'000	2017 $'000
Carrying amount at 1 January	**158,003**	138,374
Exchange realignment	**(7,842)**	10,261
Additions	**1,860**	10,347
Transfer to property, plant and equipment (note 12)	**(2,308)**	(1,071)
Interest capitalised	**–**	92
Carrying amount at 31 December	**149,713**	158,003

16 INVESTMENTS IN SUBSIDIARIES

The Company has set up a trust for the purpose of administering the Share Award Scheme established by the Company in 2011. The Company is required to consolidate the trust as the Company has the power over the trust and can derive benefits from the contributions of employees who have been awarded the awarded shares through their employment with the Group.

Shares of certain indirect wholly-owned subsidiaries of the Company were pledged and mortgaged to secure the banking facilities granted to the Group (note 33).

Details of the principal subsidiaries are set out in note 52.

Details of the Group's subsidiary that has material non-controlling interests are set out below:

	2018	2017
Percentage of equity interest held by non-controlling equity holders:		
– 遼寧長盛置業有限公司	**20%**	20%
Profit for the year allocated to non-controlling interests:	**$'000**	$'000
– 遼寧長盛置業有限公司	**2,894**	3,117
Accumulated balances of non-controlling interests at the reporting dates:	**$'000**	$'000
– 遼寧長盛置業有限公司	**330,442**	353,187

16 INVESTMENTS IN SUBSIDIARIES *(Continued)*

The following table illustrates the summarised financial information of the above subsidiary. The amounts disclosed are before any inter-company eliminations.

	2018 **遼寧長盛置業有限公司** **$'000**	2017 遼寧長盛置業有限公司 $'000
Revenue	**25,221**	30,304
Profit for the year	**14,472**	15,584
Other comprehensive income for the year	**(130,314)**	175,263
Total comprehensive income for the year	**(115,842)**	190,847
Current assets	**152,290**	142,642
Non-current assets	**2,967,497**	3,120,907
Current liabilities	**(179,987)**	(195,852)
Non-current liabilities	**(545,212)**	(568,574)
Net cash used in operating activities	**(6,781)**	(13,335)
Net cash generated from investing activities	**29**	36
Net cash generated from financing activities	**6,803**	14,499
Net increase in cash and cash equivalents	**51**	1,200

As disclosed in the announcement of the Company dated 17 January 2013, the acquisition of the entire issued share capital of Splendor Sheen Limited was completed on 16 January 2013. The principal subsidiary of Splendor Sheen Limited is 遼寧長盛置業有限公司 (formerly known as 遼寧大發房地產有限責任公司) which is owned as to 80% by Splendor Sheen Limited and 20% by the non-controlling shareholders (the "Non-controlling Shareholders").

16 INVESTMENTS IN SUBSIDIARIES *(Continued)*

Two agreements dated 27 December 2011 and 28 October 2012, respectively, were signed by the shareholders of 遼寧長盛置業有限公司. Pursuant to the aforesaid agreements, the parties thereto agreed to make additional pro-rata capital contribution to 遼寧長盛置業有限公司 with reference to respective parties' equity ownership percentage in 遼寧長盛置業有限公司 in the aggregate amounts of RMB608,000,000 for the Group and RMB152,000,000 for the Non-controlling Shareholders. Up to 31 December 2018, the Group has injected approximately RMB604,851,000 (up to 31 December 2017: approximately RMB597,843,000), equivalent to approximately $746,303,000 (up to 31 December 2017: equivalent to approximately $737,995,000), in aggregate to 遼寧長盛置業有限公司 under the capital contribution obligation as referred to in the above. The Non-controlling Shareholders, however, have not made any payment for their respective additional capital contribution obligations up to 31 December 2018. As such, the abovementioned outstanding capital contributions from the Non-controlling Shareholders have not been recognised in equity as non-controlling interests in 遼寧長盛置業有限公司 of $353,187,000 and $330,442,000 as carried in the consolidated statement of financial position as at 31 December 2017 and 2018, respectively.

17 INVESTMENTS IN ASSOCIATES

	2018 $'000	2017 $'000
Share of net assets:		
Unlisted associates	**20**	939
Advances to associates	**57,329**	58,014
Provision for impairment#	**(57,329)**	(57,579)
	–	435
	20	1,374

\# An impairment was recognised for the advances to an associate as the associate has incurred recurring losses in prior years and its future profit stream is uncertain.

The advances to associates are unsecured, interest-free and have no fixed terms of repayment. In the opinion of the directors, advances to associates with carrying amount before provision of $57,329,000 (2017: $58,014,000) are not repayable within twelve months from the end of the reporting period and, accordingly, such advances are classified in the consolidated statement of financial position as non-current assets.

17 INVESTMENTS IN ASSOCIATES *(Continued)*

The movement in the provision for impairment of advances to associates is as follows:

	2018 $'000	2017 $'000
At 1 January	**57,579**	57,563
Reversal of impairment loss	**(264)**	–
Impairment loss recognised	**14**	16
At 31 December	**57,329**	57,579

The associates of the Group are not individually material, and the following table illustrates the aggregate financial information of the associates:

	2018 $'000	2017 $'000
Share of the associates' loss for the year	**(13)**	(604)
Share of the associates' other comprehensive income	**(1)**	5,236
Share of the associates' total comprehensive income	**(14)**	4,632
Dividend received from the associates	**–**	(738)
Disposal of an associate upon step acquisition	**–**	(12,867)
Aggregate carrying amount of the Group's share of net assets of associates	**20**	939

18 INVESTMENTS IN JOINT VENTURES

	2018 $'000
Share of net assets:	
Unlisted joint ventures	2,224
Amounts due from joint ventures	699
Provision for impairment#	(264)
	435
	2,659

An impairment was recognised for the amounts due from joint ventures as a joint venture incurred recurring losses and its future profit stream is uncertain.

The amounts due from joint ventures are unsecured, interest-free and have no fixed terms of repayment.

The movement in the provision for impairment of amounts due from joint ventures is as follows:

	2018 $'000
At 1 January	–
Impairment loss recognised	264
At 31 December	264

There was no movement in provision for impairment of amounts due from joint ventures during the year ended 31 December 2017.

(Expressed in Hong Kong dollars)

18 INVESTMENTS IN JOINT VENTURES *(Continued)*

The joint ventures of the Group are not individually material, and the following table illustrates the aggregate financial information of the joint ventures:

	2018 $'000
Share of the joint ventures' profit for the year	402
Share of the joint ventures' other comprehensive income	–
Share of the joint ventures' total comprehensive income	402
Aggregate carrying amount of the Group's share of net assets of joint ventures	2,224

19 BEARER PLANTS

Movements of bearer plants by principal category of the Group are as follows:

	Lychee trees $'000	Pear trees $'000	Winter date trees $'000	Apple trees $'000	Others $'000	Total $'000
Cost:						
At 1 January 2018	17,165	8,930	8,303	25,446	15,922	75,766
Exchange realignment	(871)	(465)	(422)	(1,120)	(697)	(3,575)
Additions	–	–	59	–	44	103
Disposal/write-offs	(520)	(552)	(273)	(5,435)	(2,892)	(9,672)
At 31 December 2018	15,774	7,913	7,667	18,891	12,377	62,622
Accumulated depreciation and impairment:						
At 1 January 2018	1,908	1,273	2,726	3,506	2,817	12,230
Exchange realignment	(116)	(79)	(161)	(181)	(148)	(685)
Depreciation provided during the year (note 6)	469	450	673	992	704	3,288
Disposal/write-offs	(57)	(95)	(104)	(984)	(663)	(1,903)
At 31 December 2018	2,204	1,549	3,134	3,333	2,710	12,930
Net book value:						
At 31 December 2018	13,570	6,364	4,533	15,558	9,667	49,692

19 BEARER PLANTS *(Continued)*

	Lychee trees $'000	Pear trees $'000	Winter date trees $'000	Apple trees $'000	Others $'000	Total $'000
Cost:						
At 1 January 2017	17,379	11,452	11,314	24,763	14,469	79,377
Exchange realignment	1,258	789	711	1,829	1,058	5,645
Additions	–	781	–	–	1,253	2,034
Disposal/write-offs	(1,472)	(4,092)	(3,722)	(1,146)	(858)	(11,290)
At 31 December 2017	17,165	8,930	8,303	25,446	15,922	75,766
Accumulated depreciation and impairment:						
At 1 January 2017	1,449	1,126	2,504	2,442	2,004	9,525
Exchange realignment	123	88	191	218	175	795
Depreciation provided during the year (note 6)	500	645	882	1,012	762	3,801
Disposal/write-offs	(164)	(586)	(851)	(166)	(124)	(1,891)
At 31 December 2017	1,908	1,273	2,726	3,506	2,817	12,230
Net book value:						
At 31 December 2017	15,257	7,657	5,577	21,940	13,105	63,536

Quantities of fruit trees:

	2018 Number of trees '000	2017 Number of trees '000
Lychee trees	**189**	189
Pear trees	**229**	282
Winter date trees	**83**	87
Apple trees	**116**	144
Others	**1,479**	1,576
	2,096	2,278

The fair value less costs to sell of the Group's agricultural produce as at 31 December 2018 and 2017 is not material.

20 FINANCIAL ASSETS MEASURED AT FAIR VALUE THROUGH PROFIT OR LOSS/AVAILABLE-FOR-SALE FINANCIAL ASSETS

The fair value loss of financial assets measured at FVPL recognised in profit or loss during the year amounted to $1,092,000 (2017: $2,462,000).

The available-for-sale financial assets were reclassified to financial assets measured at fair value through profit and loss upon the initial application of HKFRS 9 at 1 January 2018 (see Note 2.2).

21 PREPAYMENTS AND DEPOSITS

Non-current prepayments and deposits are neither past due nor impaired.

22 GOODWILL

	2018	2017
	$'000	$'000
Carrying amount at 1 January	**3,106**	2,986
Exchange realignment	**(89)**	120
At 31 December	**3,017**	3,106
At 31 December:		
Cost	**6,517**	6,606
Accumulated impairment losses	**(3,500)**	(3,500)
Net carrying amount	**3,017**	3,106

The amount of goodwill arising from the acquisition of subsidiaries prior to the adoption of the Group's current accounting policy on business combination, which is included in goodwill reserve in the consolidated reserves, was $3,067,000 (2017: $3,067,000) as at 31 December 2018.

Impairment testing of goodwill

Goodwill acquired through business combinations has been allocated to the following cash-generating units for impairment testing:

– Property investment and development cash-generating unit; and

– Toy manufacturing and trading cash-generating unit

22 GOODWILL *(Continued)*

Property investment and development cash-generating unit

The recoverable amount of the property investment and development cash-generating unit has been determined based on a value-in-use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The pre-tax discount rate applied to cash flow projections is 19% (2017: 15%). Cash flows beyond the five-year period are extrapolated using a growth rate of 4% (2017: 5%) which is estimated on the basis of the long term average growth rate of the property investment and development industry.

Toy manufacturing and trading cash-generating unit

The recoverable amount of the toy manufacturing and trading cash-generating unit has been determined based on a value-in-use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The pre-tax discount rate applied to cash flow projections is 11% (2017: 7%). Cash flows beyond the five-year period are extrapolated using a growth rate of 5% (2017: 7%) which is estimated on the basis of the long term average growth rate of the toy manufacturing and trading industry.

The net carrying amount of goodwill allocated to each of the cash-generating units is as follows:

	2018 **$'000**	2017 $'000
Cash-generating units:		
Property investment and development	**1,643**	1,732
Toy manufacturing and trading	**1,374**	1,374
	3,017	3,106

23 INVENTORIES

	2018 $'000	2017 $'000
Raw materials	**220,257**	203,715
Work in progress	**185,782**	164,377
Finished goods	**282,643**	271,340
	688,682	639,432
Provision against obsolete inventories	**(62,926)**	(62,127)
	625,756	577,305

The movements in provision against obsolete inventories are as follows:

	2018 $'000	2017 $'000
At 1 January	**62,127**	48,504
Exchange realignment	**(190)**	295
Provision recognised (note 6)	**7,652**	26,084
Amount utilised	**(6,663)**	(12,756)
At 31 December	**62,926**	62,127

As at 31 December 2018, certain inventories of the Group were pledged to secure the banking facilities granted to the Group (note 33).

24 PROPERTIES UNDER DEVELOPMENT

	2018 $'000	2017 $'000
Carrying amount at 1 January	**1,597,326**	1,153,055
Exchange realignment	**(83,448)**	91,494
Transfer from deposit for land acquisition	**–**	126,489
Additions	**356,452**	210,355
Interest capitalised	**28,517**	15,933
Carrying amount at 31 December	**1,898,847**	1,597,326

The Group's properties under development are situated in Mainland China, and are held under the following lease terms:

	2018 $'000	2017 $'000
Medium term leases	**1,898,847**	1,597,326

The amount of properties under development expected to be recovered after more than one year is $1,134,903,000 (2017: $1,597,326,000).

At 31 December 2018, certain properties under development of the Group were pledged to secure the banking facilities granted to the Group (note 33).

Further particulars of the Group's properties under development are included on page 214.

25 TRADE RECEIVABLES

	2018 $'000	2017 $'000
Trade receivables	**697,783**	621,012
Loss allowance	**(98,168)**	(82,702)
	599,615	538,310

25 TRADE RECEIVABLES *(Continued)*

An ageing analysis of trade receivables net of loss allowance as at the end of the reporting period based on invoice date is as follows:

	2018 $'000	2017 $'000
Within 90 days	**537,586**	506,467
91 to 180 days	**46,980**	18,354
181 to 365 days	**5,781**	5,559
Over 365 days	**9,268**	7,930
	599,615	538,310

The movements in loss allowance for trade receivables are as follows:

	2018 $'000	2017 $'000
At 1 January	**82,702**	70,122
Exchange realignment	**(665)**	982
Impairment loss recognised (note 6)	**16,131**	23,277
Amount written off as uncollectible	**–**	(11,679)
At 31 December	**98,168**	82,702

Further details on the Group's credit policy and credit risk arising from trade receivables are set out in note 48(c). The Group does not hold any collateral or other credit enhancements over these balances.

26 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

The amount of prepayments, deposits and other receivables expected to be recovered or recognised as expense after more than one year is $477,466,000 (2017: $503,495,000). All of the other prepayments, deposits and other receivables are expected to be recovered or recognised as expense within one year.

27 FOREIGN EXCHANGE FORWARD CONTRACTS

The Group entered into foreign exchange forward contracts which did not meet the criteria of hedge accounting. The changes in the fair value of such non-hedging currency derivatives gave rise to a loss of $102,391,000 (2017: gain of $19,426,000), which was charged to profit or loss during the year. The carrying amount of foreign exchange forward contracts represent their fair value.

28 AMOUNTS DUE FROM NON-CONTROLLING SHAREHOLDERS OF SUBSIDIARIES

The amounts due from non-controlling shareholders of subsidiaries are unsecured, interest-free and recoverable on demand.

29 CASH AND BANK BALANCES

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to $274,152,000 (2017: $162,209,000). RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through the banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

As at 31 December 2017, bank deposit of $10,207,000 with original maturity over three months was denominated in Hong Kong Dollar and carried interest of 1.2% per annum. There was no bank deposit with original maturity over three months as at 31 December 2018.

As at 31 December 2018, certain cash and bank balances of the Group were pledged to secure the banking facilities granted to the Group (note 33).

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

29 CASH AND BANK BALANCES *(Continued)*

	Bank loans $'000 (Note 33)	Trust receipt loans $'000 (Note 33)	Amounts due to non-controlling shareholders of subsidiaries $'000 (Note 34)	Amount due to a related party $'000 (Note 35)	Interest payables $'000	Total $'000
At 1 January 2018	4,034,823	277,364	5,221	–	20,303	4,337,711
Changes from financing cash flows						
Proceeds from new bank loans	3,254,477	–	–	–	–	3,254,477
Repayment of bank loans	(2,966,706)	–	–	–	–	(2,966,706)
Increase in trust receipts loans	–	69,799	–	–	–	69,799
Interest and other borrowing costs paid	–	–	–	–	(176,292)	(176,292)
Increase in amounts due to non-controlling shareholder of subsidiaries	–	–	3,574	–	–	3,574
Increase in amount due to a related party	–	–	–	134,525	–	134,525
Total changes from financing cash flows	287,771	69,799	3,574	134,525	(176,292)	319,377
Exchange realignment	(27,553)	–	(351)	–	668	(27,236)
Other changes:						
Interest expenses (note 7)	–	–	–	2,641	148,637	151,278
Capitalised borrowing costs (note 7)	–	–	–	–	28,517	28,517
Total other changes	–	–	–	2,641	177,154	179,795
At 31 December 2018	4,295,041	347,163	8,444	137,166	21,833	4,809,647

(Expressed in Hong Kong dollars)

29 CASH AND BANK BALANCES *(Continued)*

	Bank loans $'000 (Note 33)	Trust receipt loans $'000 (Note 33)	Amounts due to non-controlling shareholders of subsidiaries $'000 (Note 34)	Interest payables $'000	Total $'000
At 1 January 2017	3,799,890	241,818	2,310	27,130	4,071,148
Changes from financing cash flows					
Proceeds from new bank loans	3,354,326	–	–	–	3,354,326
Repayment of bank loans	(3,152,270)	–	–	–	(3,152,270)
Increase in trust receipts loans	–	35,546	–	–	35,546
Interest and other borrowing costs paid	–	–	–	(149,900)	(149,900)
Increase in amounts due to non-controlling shareholders of subsidiaries	–	–	2,701	–	2,701
Total changes from financing cash flows	202,056	35,546	2,701	(149,900)	90,403
Exchange realignment	32,877	–	210	–	33,087
Other changes:					
Interest expenses (note 7)	–	–	–	127,048	127,048
Capitalised borrowing costs (note 7)	–	–	–	16,025	16,025
Total other changes	–	–	–	143,073	143,073
At 31 December 2017	4,034,823	277,364	5,221	20,303	4,337,711

30 NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

The Group has committed to a plan to sell certain of its investment properties. In the opinion of the directors, the disposal of the assets is expected to be completed within twelve months from the financial year end date.

	2018 $'000	2017 $'000
Carrying amount at 1 January	**1,883,000**	939,000
Transfer(to)/from investment properties (note 13)	**(1,627,000)**	855,000
Fair value gain	**16,000**	89,000
Carrying amount at 31 December	**272,000**	1,883,000

The investment properties presented as non-current assets classified as held for sale were revalued on 31 December 2018 by BMI Appraisals Limited, an independent professionally qualified valuer, at $272,000,000 (2017: $1,883,000,000) on an open market, existing use basis. Such investment properties are leased or available for lease to third parties under operating leases. Details about such operating lease arrangements are included in note 44(a) to the financial statements.

As at 31 December 2018 and 2017, all non-current assets of the Group classified as held for sale were pledged and mortgaged to secure the banking facilities granted to the Group (note 33).

Further particulars of the Group's investment properties presented as non-current assets classified as held for sale are set out on page 214.

30 NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE *(Continued)*

Fair value hierarchy

The following table illustrates the fair value measurement hierarchy of the Group's investment properties presented as non-current assets classified as held for sale:

	Fair value measurement as at 31 December 2018 using			
	Quoted prices in active markets (Level 1) $'000	**Significant observable inputs (Level 2) $'000**	**Significant unobservable inputs (Level 3) $'000**	**Total $'000**
Recurring fair value measurement for:				
Commercial properties	**–**	**–**	**272,000**	**272,000**

	Fair value measurement as at 31 December 2017 using			
	Quoted prices in active markets (Level 1) $'000	Significant observable inputs (Level 2) $'000	Significant unobservable inputs (Level 3) $'000	Total $'000
Recurring fair value measurement for:				
Commercial properties	–	–	1,883,000	1,883,000

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

30 NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE *(Continued)*

Reconciliation of fair value measurements categorised within Level 3 of the fair value hierarchy:

	Commercial properties $'000
Carrying amount at 1 January 2018	**1,883,000**
Transfer to investment properties (note 13)	**(1,627,000)**
Fair value gain	**16,000**
Carrying amount at 31 December 2018	**272,000**
Carrying amount at 1 January 2017	939,000
Transfer from investment properties (note 13)	855,000
Fair value gain	89,000
Carrying amount at 31 December 2017	1,883,000

Below is a summary of the valuation techniques and the key inputs used in the valuation of the Group's investment properties presented as non-current assets classified as held for sale:

Properties	**Valuation techniques**	**Unobservable inputs**	**Weighted average of unobservable input**	
			2018	2017
Situated in Hong Kong				
– Commercial	Investment approach	Rental rate	**\$50 – \$58 per square foot**	\$47 – \$55 per square foot
		Capitalisation rate	**2.6%**	2.6% to 2.9%

Under the investment approach, the properties are valued by taking into account the current rents passing or the hypothetical rents and the reversionary potential of the tenancies if the properties have been or would be leased to tenants.

Fair value of non-current assets classified as held for sale will increase if there were an increase in rental rate, or a decrease in capitalisation rate.

30 NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE *(Continued)*

The Group's non-current assets classified as held for sale are situated in Hong Kong and are held under the following lease terms:

	2018 $'000	2017 $'000
Medium term leases	**272,000**	1,883,000

31 TRADE PAYABLES

	2018 $'000	2017 $'000
Trade payables	**658,276**	668,987

An ageing analysis of the trade payables as at the end of the reporting period based on invoice date is as follows:

	2018 $'000	2017 $'000
Within 90 days	**547,225**	517,889
91 to 180 days	**38,937**	61,434
181 to 365 days	**11,151**	12,807
Over 365 days	**60,963**	76,857
	658,276	668,987

The trade payables are non-interest-bearing and normally settled on 90-day terms.

32 OTHER PAYABLES AND ACCRUALS

	Note	**31 December 2018 $'000**	1 January 2018 $'000	31 December 2017 $'000
Contract liabilities	(i) & (ii)			
Made-to-order manufacturing arrangements				
– Billing in advance of performance		**156,424**	113,689	–
Property development				
– Forward sales deposits and instalments received		**378,295**	158,019	–
Other payables and accruals	(iii)	**564,919**	515,828	787,536
		1,099,638	787,536	787,536

Notes:

(i) The Group has initially applied HKFRS 15 using the cumulative effect method and adjusted the opening balance at 1 January 2018.

(ii) Upon the adoption of HKFRS 15, advances received from customers which were previously classified as other payables are now reclassified as contract liabilities under other payables and accruals.

(iii) Other payables are non-interest-bearing and normally settled on 90-day terms.

Typical payment terms which impact on the amount of contract liabilities recognised are as follows:

– Manufacturing arrangements

When the Group receives a deposit on acceptance of manufacturing order, this will give rise to a contract liability at the start of a contract until the revenue of the contract is recognised. The Group typically receives deposits on acceptance of manufacturing orders. The deposit was negotiated on case by case basis with customers.

– Property development

The Group receives certain percentage of the contract value as a deposit from customers when they sign the sale and purchase agreement. This deposit is recognised as a contract liability until the properties are completed and transferred to the customer. The rest of the consideration is typically paid when the property is accepted by the customer.

(Expressed in Hong Kong dollars)

32 OTHER PAYABLES AND ACCRUALS *(Continued)*

Movement in contract liabilities

	2018 $'000
Balance at 1 January	**271,708**
Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the period	**(113,689)**
Increase in contract liabilities as a result of billing in advance of manufacturing activities	**156,424**
Increase in contract liabilities as a result of receiving forward sales deposits and instalments during the year in respect of properties still under construction as at 31 December 2018	**220,276**
Balance at 31 December	**534,719**

The amount of billings in advance of performance and forward sales deposits and instalments received expected to be recognised as revenue after more than one year is Nil (2017: $158,019,000).

(Expressed in Hong Kong dollars)

33 INTEREST-BEARING BANK BORROWINGS

	Effective interest rate %	Maturity	2018 $'000	2017 $'000
Current				
Bank overdrafts – unsecured	5	on demand	**1,898**	–
Bank overdrafts – secured	5	on demand	**–**	9,411
Bank loans – unsecured	2–5	2019	**133,224**	226,784
Bank loans – secured	2–6	2019	**1,664,370**	1,230,930
Trust receipt loans – secured	3–4	2019	**347,163**	277,364
			2,146,655	1,744,489
Non-current				
Bank loans – unsecured	4	2020–2021	**11,487**	19,709
Bank loans – secured	3–6	2020–2024	**2,485,960**	2,557,400
			2,497,447	2,577,109
			4,644,102	4,321,598

	2018 $'000	2017 $'000
Analysed into:		
Bank loans and overdrafts repayable:		
Within one year or on demand	**2,146,655**	1,744,489
In the second year	**1,024,272**	210,713
In the third to fifth years, inclusive	**1,472,973**	2,365,419
Over five years	**202**	977
	4,644,102	4,321,598

(Expressed in Hong Kong dollars)

33 INTEREST-BEARING BANK BORROWINGS *(Continued)*

Notes:

(a) At the end of the reporting period, the Group's bank borrowings of approximately $4,497,493,000 (2017: $4,075,105,000) were secured by:

(i) pledges and mortgages over the Group's investment properties situated in Hong Kong and Mainland China, which had an aggregate carrying value of approximately $5,746,428,000 (2017: $4,083,285,000) (note 13) at the end of the reporting period;

(ii) pledges and mortgages over the Group's investment properties presented as non-current assets classified as held for sale, which had an aggregate carrying value of approximately $272,000,000 (2017: $1,883,000,000) (note 30) at the end of the reporting period;

(iii) pledges and mortgages over the Group's leasehold land and buildings (including their corresponding prepaid land lease payments), which had an aggregate carrying value of approximately $50,808,000 (2017: $55,933,000) (note 12) at the end of the reporting period;

(iv) pledges over the Group's inventories, which had an aggregate carrying value of approximately $614,829,000 (2017: $514,742,000) (note 23) at the end of the reporting period;

(v) pledges over certain bank deposits of the Group with an aggregate carrying value of approximately $22,123,000 (2017: $20,613,000) (note 29) at the end of the reporting period;

(vi) pledges and mortgages over the shares of certain indirect wholly-owned subsidiaries of the Group; and

(vii) pledges and mortgages over the property under development in Shenyang, which had an aggregate carrying value of approximately $1,750,403,000 (2017: 1,458,312,000) (note 24) at the end of the reporting period.

(b) At the end of the reporting period, except for the secured bank loans with an aggregate amount of $705,825,000 (2017: $532,232,000), which were denominated in Renminbi, and the unsecured bank loans of $683,000 (2017: $720,000) which were denominated in Renminbi, all other borrowings were in Hong Kong dollars.

34 AMOUNTS DUE TO NON-CONTROLLING SHAREHOLDERS OF SUBSIDIARIES

The amounts due to non-controlling shareholders of subsidiaries are unsecured, interest-free and repayable on demand.

35 AMOUNT DUE TO A RELATED PARTY

Amount due to a related party is unsecured, repayable on demand and interest-bearing at Hong Kong dollar prime rate per annum.

36 ADVANCES FROM NON-CONTROLLING SHAREHOLDERS OF SUBSIDIARIES

The advances from non-controlling shareholders of subsidiaries are unsecured, interest-free and are not repayable within twelve months from the end of the reporting period.

37 OTHER NON-CURRENT LIABILITIES

	2018 $'000	2017 $'000
Provision for severance payments	**69,865**	73,680
Others	**609**	643
	70,474	74,323

The movements in the provision for severance payments are as follows:

	2018 $'000	2017 $'000
At 1 January	**73,680**	68,498
Exchange realignment	**(3,809)**	5,182
Amounts utilised during the year	**(6)**	–
At 31 December	**69,865**	73,680

The provision for severance payments arose from the acquisition of certain subsidiaries in Mainland China in prior years, and was recognised under the relevant regulations in Mainland China.

On 25 July 2014, an indirect wholly-owned subsidiary of the Company entered into the equity transfer agreements with Nanjing Machinery & Electronics Industrial (Group) Co., Limited (南京機電產業(集團)有限公司) for the acquisition of all the minority stakes in three subsidiaries, 南京微分電機有限公司, 南京電力電容器有限公司 and 南京液壓件二廠有限公司. Under the Agreement, investment properties amounting to $110,681,000 (2017: $109,270,000) are pledged to secure the performance of the respective subsidiaries' obligations in respect of the employees resettlement reserve funds (職工安置備用金). Under the local government policy, companies transformed from state-owned enterprise shall pledge their assets to secure the performance of their obligations in respect of the employees resettlement reserve funds.

38 DEFERRED TAX ASSETS AND LIABILITIES RECOGNISED

The movements in deferred tax (assets)/liabilities recognised during the year are as follows:

	Depreciation allowance in excess of related depreciation	**Revaluation of properties**	**Losses available for offsetting against future taxable profits**	**Total**
	$'000	$'000	$'000	$'000
At 1 January 2017	45,320	765,261	(5,521)	805,060
Deferred tax charged/(credited) to profit or loss (note 10)	8,160	24,417	(172)	32,405
Acquisition of a subsidiary (note 49)	–	8,158	–	8,158
Disposal of a subsidiary (note 50)	(536)	–	–	(536)
Exchange realignment	1,276	57,731	–	59,007
At 31 December 2017	**54,220**	**855,567**	**(5,693)**	**904,094**
At 1 January 2018	**54,220**	**855,567**	**(5,693)**	**904,094**
Deferred tax charged/(credited) to profit or loss (note 10)	**8,168**	**27,747**	**(13,575)**	**22,340**
Exchange realignment	**(1,361)**	**(44,226)**	**486**	**(45,101)**
At 31 December 2018	**61,027**	**839,088**	**(18,782)**	**881,333**

Deferred tax assets have not been recognised in respect of the following items:

(i) Tax losses arising in Hong Kong

As at 31 December 2018, the Group had tax losses arising in Hong Kong of $469,652,000 (2017: $467,185,000). Such tax losses are available indefinitely for offsetting against future taxable profits of the relevant companies from which the losses arose.

(ii) Tax losses arising in Mainland China

As at 31 December 2018, the Group had tax losses arising in Mainland China of $406,665,000 (2017: $492,658,000) in the past five years available for offsetting against future taxable profits. Such tax losses will expire in one to five years.

Deferred tax assets have not been recognised in respect of the above tax losses as it is not considered probable that taxable profits will be available against which the above tax losses can be utilised.

38 DEFERRED TAX ASSETS AND LIABILITIES RECOGNISED *(Continued)*

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared by foreign investment enterprises established in Mainland China for distribution to foreign investors. The requirement is effective from 1 January 2008 onwards, and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and the jurisdiction of the foreign investors. For the Group, the applicable tax rate is 5% or 10%. The Group is therefore liable for withholding taxes on dividends distributed by the subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008 onwards.

No deferred tax liabilities have been recognised for withholding taxes on the unremitted earnings, which are subject to the abovementioned withholding taxes, of the Group's subsidiaries established in Mainland China. In the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in the major subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately $164,140,000 at 31 December 2018 (2017: $149,293,000).

39 SHARE CAPITAL

(a) Shares

	2018 **$'000**	2017 $'000
Authorised:		
20,000,000,000 (2017: 20,000,000,000) ordinary shares of $0.01 each	**200,000**	200,000
3,000,000,000 (2017: 3,000,000,000) redeemable convertible preference shares of $0.02 each	**60,000**	60,000
Total authorised capital	**260,000**	260,000
Issued and fully paid:		
13,221,302,172 (2017: 13,221,302,172) ordinary shares of $0.01 each	**132,213**	132,213
390,691,131 (2017: 410,475,131) redeemable convertible preference shares of $0.02 each (Note 1)	**7,814**	8,210
Total issued and fully paid capital	**140,027**	140,423

(Expressed in Hong Kong dollars)

39 SHARE CAPITAL *(Continued)*

(a) Shares *(Continued)*

Movements of issued capital and share premium were as follows:

	Issued ordinary shares $'000	Issued redeemable convertible preference shares $'000	Share premium $'000	Total $'000
At 1 January 2017	104,071	8,496	1,755,891	1,868,458
14,336,000 redeemable convertible preference shares redeemed during the year	–	(286)	(11,182)	(11,468)
Issue of bonus shares during the year (Note 2)	28,142	–	(28,142)	–
At 31 December 2017 and at 1 January 2018	**132,213**	**8,210**	**1,716,567**	**1,856,990**
19,784,000 redeemable convertible preference shares redeemed during the year	**–**	**(396)**	**(15,432)**	**(15,828)**
At 31 December 2018	**132,213**	**7,814**	**1,701,135**	**1,841,162**

Movements of number of issued shares are as follows:

	No. of issued ordinary shares '000	No. of redeemable convertible preference shares '000
At 1 January 2017	10,407,117	424,811
Redeemed during the year	–	(14,336)
Issue of bonus shares during the year (Note 2)	2,814,185	–
At 31 December 2017 and at 1 January 2018	**13,221,302**	**410,475**
Redeemed during the year	**–**	**(19,784)**
At 31 December 2018	**13,221,302**	**390,691**

39 SHARE CAPITAL *(Continued)*

Notes:

(1) The redeemable convertible preference shares are redeemable at the sole discretion of the Company at any time after the issuance thereof. Holders of the redeemable convertible preference shares shall be entitled to pro-rata share of dividend or distribution declared by the board of directors (the "Board"), at its discretion, to the ordinary shareholders of the Company. Dividends or distributions payable to the holders of the redeemable convertible preference shares are not cumulative. The redeemable convertible preference shares shall not confer on the holders thereof the right to receive notice of, or to attend and vote at, general meetings of the Company unless a resolution is proposed to vary or abrogate the rights or privileges of the holders of the redeemable convertible preference shares or for winding-up the Company. The redeemable convertible preference shares rank prior to the ordinary shares on distribution of assets on liquidation, winding-up or dissolution of the Company to the extent of the amount equal to the aggregate issue price of the relevant redeemable convertible preference shares. The remaining assets shall belong to and be distributed on a pari passu basis among the holders of the ordinary shares.

(2) Pursuant to the resolution passed at the extraordinary general meeting of the Company held on 23 December 2016, bonus shares were issued to shareholders whose names appeared on the register of members of the Company on 5 January 2017, the Record Date, on the below basis:

(a) every four existing shares held by the ordinary shareholders whose names appear in the register of members of the Company on the Record Date; or

(b) every four shares that could be converted on an "as converted" basis as if all the outstanding convertible preference shares held by the holders of such shares, whose name(s) appear(s) in the register of holders of such shares of the Company on the Record Date, were converted in full at their effective conversion price immediately before the Record Date.

Upon completion of bonus issue on 9 January 2017, an amount of $28,141,849 standing to the credit of the share premium account was applied to pay up 2,814,184,886 ordinary shares of $0.01 each which were allotted and issued as fully paid, ranking pari passu with existing shares to the shareholders.

(b) Share options

Details of the Company's share option schemes and the share options issued under the schemes are set out in note 40 to the financial statements.

(c) Share awards

In 2011, the Board approved the establishment of the Company's Employees' Share Award Scheme (the "Share Award Scheme"). Pursuant to the rules of the Share Award Scheme, the Company has set up a trust (the "Trust") for the purpose of administering the Share Award Scheme and holding the shares purchased for the Share Award Scheme before the award and vesting of the same. The Company pays to the Trust from time to time for the purchase of shares held for the Share Award Scheme from market.

The terms of the Share Award Scheme provide for the award of shares in the Company and/or shares in SCAH, a related company under common control, to employees of the Group as part of their compensation package. Subject to the rules of the Share Award Scheme, the Board shall determine at the time of grant the vesting date for the relevant awarded shares.

Dividends payable to the awarded shares are applied to acquire further shares (dividend shares) and pay the related purchase expenses and expenses of the Trust. Dividend shares have the same vesting date as the related awarded shares.

39 SHARE CAPITAL *(Continued)*

For awardees who cease employment with the Group before vesting, the unvested shares are forfeited and held by the trustee of the Share Award Scheme who may award such shares to other awardees taking into consideration the recommendations of the Board.

Movements in the number of awarded shares in the Company and their related average fair values are as follows:

	2018		2017	
	Average fair value per share $	**Number of awarded shares**	Average fair value per share $	Number of awarded shares
At 1 January	**–**	**–**	–	–
Granted	**–**	**–**	0.30	1,256,000
Vested and awarded	**–**	**–**	0.30	(1,256,000)
At 31 December	**–**	**–**	–	–

Movements in the number of shares in the Company held under the Share Award Scheme are as follows:

	2018		2017	
	Value $'000	**Number of shares held**	Value $'000	Number of shares held
At 1 January	**61,075**	**206,160,593**	61,447	165,933,275
Issue of bonus shares	**–**	**–**	–	41,483,318
Vested and awarded during the year	**–**	**–**	(372)	(1,256,000)
At 31 December	**61,075**	**206,160,593**	61,075	206,160,593

During the year ended 31 December 2018, there was no share (2017: 1,256,000) of the Share Award Scheme of the Company was transferred to the awardees upon vesting of certain awarded shares. The total cost of the vested shares was Nil (2017: $372,000).

40 SHARE OPTION SCHEMES

At the annual general meeting of the Company held on 5 June 2012, the shareholders of the Company approved the adoption of a new share option scheme (the "2012 Share Option Scheme") which became effective on 11 June 2012. Under the 2012 Share Option Scheme, the directors of the Company may grant options to eligible persons to subscribe for the Company's shares subject to the terms and conditions stipulated therein. Unless otherwise cancelled or amended, the 2012 Share Option Scheme will be valid and effective for a period of 10 years commencing on the date on which it became effective.

The directors and employees of the Group are entitled to participate in the share option schemes operated by the Company. Details of the share option schemes are as follows:

2012 Share Option Scheme

(a) Purpose of the 2012 Share Option Scheme

In order to provide incentives or rewards to the participants for their contributions to the Group and to enable the Group to attract and retain employees with relevant qualifications and experience to work for the Group and any Invested Entity, the shareholders of the Company approved the adoption of the 2012 Share Option Scheme at the annual general meeting held on 5 June 2012.

(b) Participants of the 2012 Share Option Scheme

According to the 2012 Share Option Scheme, the Board may, at its discretion, grant share options to any person in any of the following classes of participants:

(i) any executive director, employee or proposed employee (whether full time or part time) of any member of the Group or any Invested Entity or substantial shareholder;

(ii) any non-executive director (including any independent non-executive director) of any member of the Group or any Invested Entity or substantial shareholder;

(iii) any individual for the time being seconded to work for any member of the Group or any Invested Entity or substantial shareholder;

(iv) any shareholder of any member of the Group or any Invested Entity or substantial shareholder or any holder of any securities issued by any member of the Group or any Invested Entity or substantial shareholder;

(v) any business partner, agent, consultant, contractor or representative of any member of the Group or any Invested Entity or substantial shareholder;

(vi) any supplier of goods or services to any member of the Group or any Invested Entity or substantial shareholder;

40 SHARE OPTION SCHEMES *(Continued)*

2012 Share Option Scheme *(Continued)*

(b) *Participants of the 2012 Share Option Scheme (Continued)*

(vii) any customer of any member of the Group or any Invested Entity or substantial shareholder;

(viii) any person or entity that provides research, development or other technological support or any advisory, consultancy, professional or other services to any member of the Group or any Invested Entity or substantial shareholder;

(ix) any other group or classes of participants from time to time determined by the directors as having contributed or may contribute to the development and growth of any member of the Group (inducing any discretionary object of a participant which is a discretionary trust); and

(x) any company wholly owned by one or more persons belonging to any of the above classes of participants.

(c) *Total number of shares available for issue under the 2012 Share Option Scheme*

The maximum number of shares in respect of which share options may be granted under the 2012 Share Option Scheme and any other share option scheme of the Company shall not exceed 10% of the total number of shares in issue as at the date of approval of the 2012 Share Option Scheme, i.e. a total of 597,727,372. Options lapsed in accordance with the terms of the 2012 Share Option Scheme or any other share option scheme of the Company under which such options are granted shall not be counted for the purpose of calculating whether the abovementioned scheme mandate limit has been exceeded.

As at 31 December 2018, the total number of shares available for issue pursuant to the grant of further share options under the 2012 Share Option Scheme was 550,087,372 (2017: 501,956,531), representing approximately 4.2% of the issued share capital of the Company as at the date of this annual report.

40 SHARE OPTION SCHEMES *(Continued)*

2012 Share Option Scheme *(Continued)*

(d) *Maximum entitlement of each participant*

No participant shall be granted an option if the total number of shares issued and to be issued upon exercise of the options granted and to be granted (including both exercised, cancelled and outstanding options) in any 12-month period up to and including the date of grant to such participant would exceed in aggregate 1% (or such other percentage as may be permitted under the Listing Rules and all other applicable laws and regulations) of the shares for the time being in issue unless the proposed grant has been approved by the shareholders of the Company in general meeting with the proposed grantee and his associates (as defined in the Listing Rules) abstaining from voting.

Where a grant of share option is to a substantial shareholder (as defined in the Listing Rules) of the Company or an independent non-executive director of the Company or any of their respective associates (as defined in the Listing Rules) and the proposed grant of the share option, when aggregated with the share options already granted and to be granted (including share options exercised, cancelled and outstanding) to such person(s) in the past twelve months period up to and including the date of such grant, would result in the shares issued and to be issued upon exercise of all share options already granted and to be granted (including share options exercised, cancelled and outstanding) to such person(s) representing in aggregate over 0.1% of the total issued share capital of the Company for the time being (or such other amount or percentage or on such other date as the relevant provisions of the Listing Rules may specify) and having an aggregate value, based on the closing price of the share at the date of each grant, in excess of $5 million (or such other amount or such other price or date as the relevant provisions of the Listing Rules may specify), then the proposed grant of share option must be subject to the approval of the shareholders of the Company on a poll in a general meeting where all connected persons of the Company must abstain from voting.

(e) *Period within which the shares must be taken up under an option*

The Board may at its absolute discretion determine the period during which a share option may be exercised. Such period should expire no later than 10 years from the date of grant. The Board may also impose restrictions on the exercise of a share option during the period a share option may be exercised.

(f) *Minimum period, if any, for which an option must be held before it can be exercised*

There is no specific requirement under the 2012 Share Option Scheme that an option must be held for any minimum period before it can be exercised. But the terms of the 2012 Share Option Scheme provide that the Board has the discretion to impose a minimum period at the time of grant of any particular option.

(Expressed in Hong Kong dollars)

40 SHARE OPTION SCHEMES *(Continued)*

2012 Share Option Scheme *(Continued)*

(g) *Amount payable upon acceptance of the option and the period within which payment must be made*

An amount of $1 for each lot of share options granted is payable upon acceptance of the options within 28 days from the date of offer of the option.

(h) *Basis of determining the exercise price of the options*

The exercise price is determined by the Board, and shall be at least the highest of: (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheet on the date of offer of grant; (ii) the average closing price of the Company's shares as stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of offer of grant; and (iii) the nominal value of the Company's shares.

(i) *Remaining life of the 2012 Share Option Scheme*

Subject to early termination of the 2012 Share Option Scheme pursuant to the terms thereof, the 2012 Share Option Scheme will be valid and effective for a period of 10 years commencing on the date on which it became effective on 11 June 2012.

The following share options were outstanding under the 2012 Share Option Scheme during the year:

	2018		2017	
	Weighted average exercise price per share $ (Note)	**Number of options '000**	Weighted average exercise price per share $ (Note)	Number of options '000
At 1 January	**0.51**	**52,636**	0.65	57,636
Lapsed during the year	**0.51**	**(33,886)**	0.51	(5,000)
At 31 December	**0.51**	**18,750**	0.51	52,636
Exercisable at 31 December	**0.51**	**18,750**	0.51	24,465

Note: As a result of the bonus issue, the exercise price of the outstanding share options was adjusted with effect from 9 January 2017.

(Expressed in Hong Kong dollars)

40 SHARE OPTION SCHEMES *(Continued)*

2012 Share Option Scheme *(Continued)*

(i) *Remaining life of the 2012 Share Option Scheme (Continued)*

Particulars of the outstanding share options granted under the 2012 Share Option Scheme and their movements during the year were as follows:

	Number of share options						
Name or category of participant	**Outstanding as at 1 January 2018**	**Lapsed during the year**	**Outstanding as at 31 December 2018**	**Date of grant of share options** (DD/MM/YYYY) (note 1)	**Exercise period of share options** (DD/MM/YYYY)	**Number of ordinary share issuable upon the exercise of share options**	**Exercise price per share** $ (note 2)
Employees							
In aggregate	7,750,000	(1,500,000)	6,250,000	10/07/2015	10/07/2016 – 09/07/2025	15,880,000	0.51
	7,750,000	(1,500,000)	6,250,000	10/07/2015	10/07/2017 – 09/07/2025	15,880,000	0.51
	7,250,000	(1,000,000)	6,250,000	10/07/2015	10/07/2018 – 09/07/2025	15,880,000	0.51
	8,965,000	(8,965,000)	–	20/10/2015	20/10/2017 – 19/10/2025	–	0.51
	8,965,000	(8,965,000)	–	20/10/2015	20/10/2018 – 19/10/2025	–	0.51
	11,956,368	(11,956,368)	–	20/10/2015	20/10/2019 – 19/10/2025	–	0.51
Total	52,636,368	(33,886,368)	18,750,000			47,640,000	

Notes:

(1) All share options granted are subject to a vesting period and exercisable in the following manner:

From the date of grant of share options	**Exercisable percentage**
Within 12 months	Nil
13th – 24th month	Not more than $33^{1}/_{3}$%
25th – 36th month	Not more than $66^{2}/_{3}$%
37th – 120th month	100%

(2) The subscription price of the share options is subject to adjustment in the case of rights or bonus issues, or other alteration in the capital structure of the Company.

At the end of the reporting period, the Company had 18,750,000 share options outstanding under the 2012 Share Option Scheme. The exercise in full of the remaining share options would, under the capital structure of the Company as at 31 December 2018, result in the issue of 47,640,000 additional ordinary shares of the Company with additional cash received of $24,296,000.

41 RESERVES

(a) The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 78 to 79.

(b) Nature and purpose of reserves

(i) *Share premium*

The share premium represents the difference between the par value of the shares of the Company and proceeds received from the issuance of the shares of the Company.

Under the Companies Law of the Cayman Islands, the funds in the share premium account of the Company is distributable to the shareholders of the Company provided that immediately following the date on which the dividend is proposed to be distributed, the Company would be in a position to pay off its debts as they fall due in the ordinary course of business.

(ii) *Contributed surplus*

The excess of the value of the consolidated net assets represented by the shares acquired over the nominal value of the shares issued by the Company in exchange was credited to the contributed surplus.

(iii) *Merger reserve*

It represents the excess of the consideration over the carrying amount of net assets acquired under common control transactions.

(iv) *Land and buildings revaluation reserve*

The land and buildings revaluation reserve has been set up and is dealt with in accordance with the accounting policies adopted for land and buildings held for own use in note 2.4(g).

(v) *Available-for-sale financial assets revaluation reserve*

The available-for-sale financial assets reserve comprises the cumulative net change in the fair value of available-for-sale financial assets held at the reporting date. Upon initial adoption of HKFRS 9, the balance at 1 January 2018 has been transferred to retained profits (see note 2.2(i))

41 RESERVES *(Continued)*

(b) Nature and purpose of reserves *(Continued)*

(vi) *PRC statutory reserve*

Pursuant to the relevant laws and regulations of the PRC, certain subsidiaries of the Group registered in the PRC shall appropriate a portion of their profits after tax to the PRC statutory reserves, which are restricted as to use, subject to certain conditions provided that the said profit after tax of the relevant subsidiary is in excess of its accumulated losses brought forward, if any. For such appropriation, the said profit after tax and accumulated losses brought forward shall be the respective amounts reported in accordance with the accounting principles generally applicable to the PRC enterprises. There was no such transfer to the PRC statutory reserves for the year ended 31 December 2018 (2017: Nil).

(vii) *Goodwill reserve*

The goodwill arising on consolidation has been set up and dealt with in accordance with the transitional arrangements under HKFRS 3 (August 2004). Goodwill which had previously been taken directly to reserves (i.e. goodwill which arose before 1 January 2001) will not be recognised in profit or loss on disposal or impairment of the acquired business, or under any other circumstances.

(viii) *Exchange reserve*

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of operations outside Hong Kong. The reserve is dealt with in accordance with the accounting policy as set out in note 2.4(cc).

(ix) *Employee share-based compensation reserve*

The employee share-based compensation reserve comprises the fair value of the unvested share awards and the unexercised share options of the Group at grant date that has been recognised in accordance with the accounting policy as set out in note 2.4(z).

(x) *Treasury shares*

At the end of the reporting period, a subsidiary had 32,249,468 of treasury shares which are available for resale and are recognised as a reduction of the total equity of the Group.

(c) Dividend

The Company had not declared or paid any dividend during the year (2017: Nil) and the board of directors of the Company did not recommend the payment of a final dividend for the year ended 31 December 2018 (2017: Nil).

(Expressed in Hong Kong dollars)

41 RESERVES *(Continued)*

(d) Company

	Share premium $'000	Capital redemption reserve $'000	Shares held for Share Award Scheme $'000	Employee share-based compensation reserve# $'000	Accumulated losses $'000	Total $'000
At 1 January 2017	1,755,891	223	(61,447)	60,760	(62,558)	1,692,869
Loss and total comprehensive income for the year	–	–	–	–	(92,035)	(92,035)
Redemption of redeemable convertible preference shares	(11,182)	–	–	–	–	(11,182)
Transfer of employee share-based compensation reserve upon lapse of shares awarded and share options	–	–	–	(50,752)	50,752	–
Recognition of equity-settled share-based compensation: share award and share options	–	–	–	4,736	–	4,736
Vesting of shares awarded under Share Award Scheme	–	–	372	(333)	(39)	–
Issue of bonus shares	(28,142)	–	–	–	–	(28,142)
At 31 December 2017 and 1 January 2018	**1,716,567**	**223**	**(61,075)**	**14,411**	**(103,880)**	**1,566,246**
Loss and total comprehensive income for the year	**–**	**–**	**–**	**–**	**(94,714)**	**(94,714)**
Redemption of redeemable convertible preference shares	**(15,432)**	**–**	**–**	**–**	**–**	**(15,432)**
Transfer of employee share-based compensation reserve upon lapse of shares awarded and share options	**–**	**–**	**–**	**(7,830)**	**7,830**	**–**
Recognition of equity-settled share-based compensation: share award and share options	**–**	**–**	**–**	**1,915**	**–**	**1,915**
At 31 December 2018	**1,701,135**	**223**	**(61,075)**	**8,496**	**(190,764)**	**1,458,015**

Employee share-based compensation reserve comprises the share option reserve and the share award reserve.

41 RESERVES *(Continued)*

(d) Company *(Continued)*

The Company's reserves available for distribution include share premium, capital redemption reserve, employee share-based compensation reserve and retained profits. Under the Companies Law (Revised) Chapter 22 of the Cayman Islands, share premium of the Company is available for paying distributions or dividends to shareholders subject to the provisions of its memorandum or articles of association provided that the Company is able to pay its debts as they fall due in the ordinary course of business immediately following the distribution of dividend. Accordingly, the Company's reserves available for distribution to shareholders as at 31 December 2018 amounted to approximately $1,519,090,000 (2017: $1,627,321,000).

42 CONTINGENT LIABILITIES

At 31 December 2018, the Group had given guarantees to financial institutions in the aggregate amount of $58,549,000 on behalf of purchasers of property units developed by the Group in mainland China in relation to which the related building ownership certificate had not yet been issued at 31 December 2018. Such guarantees will be released upon the issuance of the building ownership certificate.

43 PLEDGES OF ASSETS

Details of the Group's bank loans and overdrafts and non-current liabilities, which are secured by the assets of the Group, are included in notes 33 and 37 to the financial statements.

44 OPERATING LEASE ARRANGEMENTS

(a) As lessor

The Group leases its investment properties (notes 13 and 30) under operating lease arrangements with leases generally negotiated for terms ranging from one to ten years. The terms of the leases generally also require the tenants to pay security deposits and may provide for periodic rent adjustments according to the then prevailing market conditions.

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

	2018 **$'000**	2017 $'000
Within one year	**184,399**	163,754
In the second to fifth years, inclusive	**193,726**	159,926
Over five years	**19,971**	21,960
	398,096	345,640

44 OPERATING LEASE ARRANGEMENTS *(Continued)*

(b) As lessee

The Group leases certain of its factory premises and office properties under operating lease arrangements. Leases for these factory premises are generally negotiated for terms ranging from one month to ten years, and those for office properties are for terms of one to two years.

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

	2018 $'000	2017 $'000
Within one year	56,114	52,747
In the second to fifth years, inclusive	36,294	33,462
Over five years	41,958	35,251
	134,366	121,460

45 CAPITAL COMMITMENTS

The Group had the following capital commitments at the end of the reporting period:

	2018 $'000	2017 $'000
Contracted but not provided for:		
Land and buildings	28,599	21,865
Machinery and equipment	2,352	412
Land use rights	7,554	11,225
	38,505	33,502
Authorised but not contracted for:		
Property, plant and equipment	51,918	50,421

46 RELATED PARTY TRANSACTIONS

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

	2018 $'000	2017 $'000
Transactions with related companies#:		
Interest income (note 1)**	–	3,296
Interest expense (note 2)*	**(2,641)**	–
Rental income**	**6,506**	4,972
Air tickets and travel related services purchased*	**(2,106)**	(2,321)

\# The relevant related companies are controlled by a substantial shareholder, who is also a director of the Company.

* These related party transactions also constitute exempted connected transactions or exempted continuing connected transactions as defined in Chapter 14A of the Listing Rules.

** The related party transactions includes an amount of $4,332,000 (2017: $4,215,000) which constitute connected transactions or continuing connected transactions as defined in Chapter 14A of the Listing Rules in respect of which the disclosure requirements under Chapter 14A of the Listing Rules have been complied with and the key terms of the relevant loan agreement and tenancy agreements have been disclosed in the announcement of the Company.

Note 1: For the year ended 31 December 2017, interest income of $3,296,000 was charged at Hong Kong dollar prime rate on the outstanding balance of the loan to the related company.

Note 2: Interest expense of $2,641,000 was charged at Hong Kong dollar prime rate on the outstanding balance of the amount due to a related party.

(b) Outstanding balances with related parties:

Details of the balances with related parties at the end of the reporting period are included in notes 17, 18, 28, 34, 35 and 36 to the financial statements.

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

The executive directors are the key management personnel of the Group. Details of their remuneration are disclosed in note 8 to the financial statements.

(Expressed in Hong Kong dollars)

47 FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The Group's corporate finance team is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The corporate finance team reports directly to the management and the audit committee. At each reporting date, the corporate finance team analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the management. The valuation process and results are discussed with the audit committee for annual financial reporting.

The fair values of the financial assets and liabilities are included in the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of financial investments are based on quoted market prices.

The Group enters into foreign exchange forward contracts with financial institutions. Foreign exchange forward contracts are measured using valuation techniques similar to forward pricing models. The models incorporate various market observable inputs including foreign exchange spot and forward rates. The carrying amounts of foreign exchange forward contracts are the same as their fair values.

At the end of the reporting period, the financial investments were classified as Level 1 under the fair value hierarchy.

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

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values.

48 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

(a) Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term debt obligations with a floating interest rate.

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

	Change in basis point	**Change in profit before tax** $'000
2018	**50**	**18,985**
2017	50	18,043

(b) Foreign currency risk

The Group operates in Hong Kong and Mainland China and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to Renminbi ("RMB") and United States dollars ("USD"). Foreign exchange risk mainly arises from transactions in Mainland China. The directors consider that the Group's exposure to foreign currency risk in respect of balances denominated in USD to be minimal as the Hong Kong dollar is pegged to the USD.

(i) Exposure to currency risk

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in Hong Kong dollars, translated using the spot rate at the year end date. Differences resulting from the translation of the financial statements of operations outside Hong Kong into the Group's presentation currency are excluded.

48 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(b) Foreign currency risk *(Continued)*

(i) *Exposure to currency risk (Continued)*

	Exposure to foreign currencies (expressed in Hong Kong dollars)			
	2018		2017	
	RMB	**USD**	RMB	USD
	$'000	**$'000**	$'000	$'000
Assets	**167,677**	**527,349**	115,484	389,760
Liabilities	**(660,914)**	**(14,340)**	(605,041)	(34,945)
Gross exposure arising from recognised non-derivative assets and liabilities	**(493,237)**	**513,009**	(489,557)	354,815
Notional amounts of forward exchange contracts	**–**	**–**	1,200,768	–
Net exposure arising from recognised assets and liabilities	**(493,237)**	**513,009**	711,211	354,815

(ii) *Sensitivity analysis*

The following table indicates the instantaneous change in the Group's profit before tax that would arise if foreign exchange rates to which the Group has significant exposure at the end of the reporting period had changed at that date, assuming all other risk variables remained constant. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the USD would be materially unaffected by any changes in movement in value of the USD against other currencies.

	2018		2017	
	Increase/ (decrease) in foreign exchange rates	**Effect on profit before tax**	Increase/ (decrease) in foreign exchange rates	Effect on profit before tax
		$'000		$'000
RMB	**5%**	**(24,662)**	5%	35,561
	(5)%	**24,662**	(5)%	(35,561)

48 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(b) Foreign currency risk *(Continued)*

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' profit before tax measured in the respective functional currencies, translated into Hong Kong dollars at the exchange rate ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the end of the reporting period, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of operations outside Hong Kong into the Group's presentation currency. The analysis is performed on the same basis for 2017.

(c) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. The Group's credit risk is primarily attributable to trade receivables. The Group's exposure to credit risk arising from cash and cash equivalents is limited because the counterparties are banks for which the Group considers to have low credit risk.

Trade receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. At the end of the reporting period, 31.2% (2017: 23.6%) and 83.7% (2017: 81.2%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively within the trading and manufacturing segment.

The Group's trading terms with its customers are mainly on credit with credit periods normally ranging from one to three months depending on a number of factors including trade practice, collection history and location of customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to monitor credit risk. Overdue balances are reviewed regularly by the senior management.

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience indicates different loss patterns for different customer segments, the loss allowance is calculated based on days past due from various customer segments which are grouped with similar patterns (ie. by customer type).

48 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(c) Credit risk *(Continued)*

The following tables provides information about the Group's exposure to credit risk and ECLs for trade receivables as at 31 December 2018:

	Expected loss rate	Gross carrying amount	Loss allowance
	%	$'000	$'000
Current (not past due) or within 180 days	1%	596,670	8,514
181–365 days past due	31%	9,840	3,042
366–548 days past due	73%	3,583	2,610
548–730 days past due	69%	11,768	8,080
Over 730 days past due	100%	75,922	75,922
		697,783	98,168

Expected loss rates are based on actual loss experience over the past two years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the Group's view of economic conditions over the expected lives of the receivables.

Comparative information under HKAS 39

Prior to 1 January 2018, an impairment loss was recognised only when there was objective evidence of impairment (see note 2.4(n)(i) – policy applicable prior to 1 January 2018). At 31 December 2017, trade receivables of $82,702,000 were determined to be impaired. The aging analysis of trade debtors that were not considered to be impaired was as follows:

48 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(c) Credit risk *(Continued)*

	2017
	$'000
Neither past due nor impaired	427,334
Less than 1 month past due	64,916
1 to 3 months past due	30,977
4 to 6 months past due	3,247
7 to 12 months past due	4,275
Over 1 year past due	7,561
	110,976
	538,310

Receivables that were neither past due nor impaired relate a wide range of customers for whom there was recent history of default.

Receivables past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

(d) Liquidity risk

The Group monitors its risk to a shortage of funds using a recurring liquidity planning tool. This tool considers the maturity of both its financial instruments and financial assets (e.g. trade receivables) and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans and other interest-bearing loans.

For bank loans subject to repayment on demand clause which can be exercised at the bank's sole discretion, the maturity analysis shows the cash outflow based on expected repayment dates with reference to the schedule of repayments set out in the banking facilities letter and, separately, the impact to the timing of the cash outflow if the lenders were to invoke unconditional rights to call the loans with immediate effect.

48 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(d) Liquidity risk *(Continued)*

The maturity profile of the Group's financial liabilities at the end of the reporting period, based on the contractual undiscounted payments, was as follows:

	2018			
	Within 1 year or on demand $'000	**More than 1 year but less than 5 years $'000**	**More than 5 years $'000**	**Total $'000**
Trade payables	**658,276**	**–**	**–**	**658,276**
Other payables	**514,942**	**–**	**–**	**514,942**
Interest-bearing bank borrowings	**2,240,859**	**2,720,056**	**203**	**4,961,118**
Foreign exchange forward contract	**18,966**	**–**	**–**	**18,966**
Financial liabilities included in other non-current liabilities	**–**	**70,474**	**–**	**70,474**
Amounts due to non-controlling shareholders of subsidiaries	**8,444**	**7,941**	**–**	**16,385**
	3,441,487	**2,798,471**	**203**	**6,240,161**
Adjustments to present cash flows interest-bearing bank borrowings based on lenders' right to demand repayment	**43,821**	**(43,821)**	**–**	**–**
	3,485,308	**2,754,650**	**203**	**6,240,161**

	2017			
	Within 1 year or on demand $'000	More than 1 year but less than 5 years $'000	More than 5 years $'000	Total $'000
Trade payables	668,987	–	–	668,987
Other payables	660,985	–	–	660,985
Interest-bearing bank borrowings	1,889,957	2,768,252	993	4,659,202
Amounts due to non-controlling shareholders of subsidiaries	5,221	7,941	–	13,162
	3,225,150	2,776,193	993	6,002,336
Adjustments to present cash flows interest-bearing bank borrowings based on lenders' right to demand repayment	2,237	(2,237)	–	–
	3,227,387	2,773,956	993	6,002,336

48 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(e) Equity price risk

The following table demonstrates the sensitivity to every 10% change in the fair values of the Group's equity investments, with all other variables held constant, based on their carrying amounts at the end of the reporting period.

	Carrying amount of equity investments $'000	Change in profit before tax $'000
2018		
Investments held for trading listed in:		
– Hong Kong	**14,283**	**1,428**
– Mainland China	**2,213**	**221**

	Carrying amount of equity investments $'000	Change in profit before tax $'000
2017		
Investments held for trading listed in:		
– Hong Kong	23,255	2,326
– Mainland China	2,795	280

(f) Capital management

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

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

48 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(f) Capital management *(Continued)*

The Group monitors capital using a gearing ratio, which is total long-term bank borrowings divided by capital. The Group's policy is to maintain the gearing ratio below 50%. The long-term bank borrowings include non-current portion of interest-bearing bank borrowings. Capital includes total equity. The gearing ratios at the end of the reporting periods were as follows:

	2018 **$'000**	2017 $'000
Non-current interest-bearing bank borrowings	**2,497,447**	2,577,109
Capital	**5,977,547**	6,137,520
Gearing ratio	**41.8%**	42.0%

49 ACQUISITION OF A SUBSIDIARY

On 3 July 2017, Nanjing Second Compressor Company Limited (南京第二壓縮機有限公司) (the "Transferee"), an indirect wholly-owned subsidiary of the Company, entered into an equity transfer agreement with Ingersoll-Rand (China) Investment Company Limited (英格索蘭(中國)投資有限公司) (the "Transferor") for the acquisition of all the remaining 80% interests in 南京南英置業有限公司 (formerly known as Nanjing Ingersoll-Rand Compressor Co., Ltd. (南京英格索蘭壓縮機有限公司)), a then 20% associate of the Group held by the Transferee at a total cash consideration of RMB44,405,000 (equivalent to $51,466,000). This acquisition has been accounted for as acquisition of assets. The transaction was completed on 11 August 2017.

49 ACQUISITION OF A SUBSIDIARY *(Continued)*

The fair values of assets and liabilities acquired of 南京南英置業有限公司 recognised on the date of acquisition are as follows:

	Fair value on date of acquisition
	$'000
Investment properties	42,235
Trade receivables	950
Prepayments, deposits and other receivables	32
Cash and bank balances	31,521
Trade payables	(132)
Other payables and accruals	(2,115)
Deferred tax liability	(8,158)
Net assets acquired	64,333
Cash consideration	(51,466)
Cash acquired	31,521
Net cash outflow	(19,945)

50 DISPOSAL OF A SUBSIDIARY

On 18 October 2017, the Group entered into an agreement in relation to the sale by the Group of its entire equity interest in Shirton Limited for a cash consideration of $102,120,000 (the "Disposal"). The transaction was completed on 24 November 2017.

An analysis of the gain on disposal is as follows:

	$'000
Net assets of Shirton Limited on disposal date:	
Property, plant and equipment	12,157
Prepayments and deposits	120
Amount due to immediate holding company	(15,790)
Deferred tax liability	(536)
Net liabilities disposed of	(4,049)
Gain on disposal:	
Cash consideration	102,120
Expenses in connection with the Disposal	(1,395)
Net liabilities disposed of	4,049
Amount due to immediate holding company	(15,790)
Gain on disposal	88,984
Net cash inflow arising on the Disposal during the year:	
Cash consideration received	102,000

At 31 December 2017, $120,000 of the consideration was recorded in prepayment, deposits and other receivables and was subsequently received by the Group.

(Expressed in Hong Kong dollars)

51 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	Note	2018 $'000	2017 $'000
Non-current asset			
Investments in subsidiaries		**4,672,791**	4,742,639
Current assets			
Other receivables		**3,942**	8,324
Financial assets measured at fair value through profit or loss		**6,435**	12,870
Cash and bank balances		**43,441**	71,489
Total current assets		**53,818**	92,683
Current liabilities			
Other payables		**19,179**	19,426
Interest-bearing bank borrowings		**181,990**	117,813
Total current liabilities		**201,169**	137,239
Net current liabilities		**(147,351)**	(44,556)
Total assets less current liabilities		**4,525,440**	4,698,083
Non-current liabilities			
Interest-bearing bank borrowings		**1,696,942**	1,877,291
Amounts due to subsidiaries		**1,230,456**	1,114,123
Total non-current liabilities		**2,927,398**	2,991,414
NET ASSETS		**1,598,042**	1,706,669
CAPITAL AND RESERVES			
Share capital	39	**140,027**	140,423
Reserves	41(d)	**1,458,015**	1,566,246
TOTAL EQUITY		**1,598,042**	1,706,669

(Expressed in Hong Kong dollars)

52 PARTICULARS OF PRINCIPAL SUBSIDIARIES

Particulars of the Company's principal subsidiaries at 31 December 2018 are as follows:

Name	Place of incorporation/ registration and operations	Particulars of issued/ paid-up capital	Percentage of equity attributable to the Company	Principal activities
Autowill Limited	British Virgin Islands ("BVI")	US$1	100%	Investment holding
Beat Time Enterprises Limited	BVI	US$1	100%	Investment holding
重慶華慶農林發展有限公司 (note (d))	The PRC	RMB25,000,000	100%	Forestry
Copthorne Holdings Corp.	Republic of Panama/ Hong Kong	US$200	100%	Property investment
長德玩具(東莞)有限公司 (note (d))	The PRC	$20,000,000	100%	Manufacturing of toys
創峰塑膠電子製品(北流)有限公司 (note (d))	The PRC	US$1,000,000	100%	Manufacturing of toys
東莞盈峰塑膠電子製品有限公司 (note (d))	The PRC	US$3,000,000	100%	Manufacturing of toys
Eastand Investments Limited	Hong Kong	$2	100%	Property investment
Everwin Toys (Dongguan) Co., Ltd. (note (d))	The PRC	$64,500,000	100%	Manufacturing of toys
廣東華興果業發展有限公司 (note (d))	The PRC	US$11,500,000	100%	Fruit plantation
海興華豐農業有限公司 (note (d))	The PRC	$30,000,000	100%	Woods and crops plantation
遼寧長盛置業有限公司 (note (c))	The PRC	RMB874,851,000	80%	Property investment
Nanjing South China Dafang Electric Co., Ltd. (note (d))	The PRC	RMB77,550,000	100%	Property investment
Nanjing South China Huaguan Compressor Ltd. (note (d))	The PRC	RMB53,426,450	100%	Property investment

(Expressed in Hong Kong dollars)

52 PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Name	Place of incorporation/ registration and operations	Particulars of issued/ paid-up capital	Percentage of equity attributable to the Company	Principal activities
Nanjing South China Sanda Motor Co. Ltd. (note (d))	The PRC	RMB18,940,000	100%	Property investment
Nanjing South China Santa Machinery Co., Ltd. (note (d))	The PRC	RMB48,093,700	100%	Property investment
南京電力電容器有限公司 (note (d))	The PRC	RMB1,425,400	100%	Property investment
南京液壓件二廠有限公司 (note (d))	The PRC	RMB2,345,600	100%	Property investment
南京第二壓縮機有限公司 (note (d))	The PRC	RMB16,756,800	100%	Property investment
南京電機有限公司 (note (d))	The PRC	RMB25,261,300	100%	Property investment
南京微分電機有限公司 (note (d))	The PRC	RMB29,035,500	100%	Property investment
南京南英置業有限公司	The PRC	RMB33,616,000	100%	Property investment
陝西泰添農林發展有限公司 (note (d))	The PRC	$13,525,310	100%	Woods and crops plantation
瀋陽華寶農林綜合開發有限公司 (note (d))	The PRC	US$2,963,740	100%	Woods and crops plantation
瀋陽華凱農林開發有限公司 (note (d))	The PRC	US$2,488,200	100%	Woods and crops plantation
瀋陽萬鴻星匯商業有限公司 (note (c))	The PRC	RMB5,000,000	80%	Property management
瀋陽南華鴻基房地產開發有限公司 (note (d))	The PRC	US$134,936,000	100%	Property development
South China Industries (BVI) Limited (note (a))	BVI	US$1,000	100%	Investment holding
South China Shoes Products Company Limited	Hong Kong	$500,000	100%	Trading of footwear products
South China Strategic (BVI) Limited	BVI	US$1	100%	Investment holding

(Expressed in Hong Kong dollars)

52 PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Name	Place of incorporation/ registration and operations	Particulars of issued/ paid-up capital	Percentage of equity attributable to the Company	Principal activities
South China Strategic Limited	Hong Kong	$308,593,789	100%	Investment holding
South China Strategic Properties (BVI) Limited	BVI	US$1	100%	Property investment
South China Strategic Property Development Limited	Hong Kong	$5,000,000	100%	Investment holding
Splendor Sheen Limited	BVI	US$2	100%	Investment holding
泰美華升(惠州)電子有限公司 (note (d))	The PRC	US$13,589,775	70%	Manufacturing and trading of electronic products
Thousand China Investments Limited	BVI	US$1	100%	Investment holding
Tianjin South China Leather Chemical Products Co. Ltd. (note (c))	The PRC	RMB20,516,500	80%	Manufacturing of leather chemical products
Tianjin South China Leesheng Sporting Goods Co. Ltd. (note (c))	The PRC	RMB10,213,600	80%	Manufacturing of sports products
Tianjin South China Shoes Products Co. Ltd. (note (c))	The PRC	RMB36,100,200	80%	Manufacturing and trading of footwear products
Wahheng Toys (Shenzhen) Co., Ltd. (note (d))	The PRC	US$8,000,000	100%	Manufacturing of toys
華輝玩具(郁南)有限公司 (note (d))	The PRC	US$7,500,000	100%	Manufacturing of toys
天津南華譽基房地產開發有限公司 (note (d))	The PRC	$180,000,000	100%	Property development
Wah Shing (BVI) Limited	BVI	US$1,000	100%	Investment holding

(Expressed in Hong Kong dollars)

52 PARTICULARS OF PRINCIPAL SUBSIDIARIES *(Continued)*

Name	Place of incorporation/ registration and operations	Particulars of issued/ paid-up capital	Percentage of equity attributable to the Company	Principal activities
Wah Shing Electronics Company Limited	Hong Kong/The PRC	$571,500	70%	Manufacturing and trading of toys
Wah Shing International Holdings Limited	Bermuda	$54,432,000	100%	Investment holding
Wah Shing Toys Company Limited	Hong Kong	$2 ordinary and $3,020,002 Non-voting deferred (note (b))	100%	Trading of toys
華太玩具(深圳)有限公司 (note (d))	The PRC	US$5,000,000	100%	Manufacturing of toys
Welbeck Holdings Limited	BVI	US$1	100%	Investment holding
WTS International (BVI) Limited	BVI	US$1	100%	Investment holding
Wuhan Huafeng Agricultural Development Company Limited (note (d))	The PRC	RMB7,934,330	100%	Forestry
武漢港洋林業發展有限公司 (note (d))	The PRC	RMB1,000,000	100%	Forestry
容縣華榮玩具有限公司 (note (d))	The PRC	US$2,000,000	100%	Manufacturing of toys

Notes:

(a) Except for South China Industries (BVI) Limited, the principal subsidiaries are all held indirectly by the Company.

(b) The non-voting deferred shares have no voting rights and practically no entitlement to dividend of profit or distribution on winding up.

(c) These are Sino-foreign equity joint ventures established in the PRC.

(d) These are wholly-foreign-owned equity enterprises established in the PRC.

The above summary lists only the subsidiaries which, in the opinion of the directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

Summary of Financial Information

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements and restated/reclassified as appropriate, is set out below.

RESULTS

	2018	2017	2016	2015	2014
	$'000	$'000	$'000	$'000	$'000
Revenue	**4,228,197**	3,901,796	3,731,153	3,406,501	3,159,789
Profit before tax	**193,974**	303,749	201,281	237,695	213,178
Income tax	**(53,241)**	(55,617)	(54,648)	(86,040)	(32,660)
Profit for the year	**140,733**	248,132	146,633	151,655	180,518
Attributable to:					
Owners of the Company	**140,003**	229,872	152,142	156,749	189,780
Non-controlling interests	**730**	18,260	(5,509)	(5,094)	(9,262)
	140,733	248,132	146,633	151,655	180,518

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

	2018	2017	2016	2015	2014
	$'000	$'000	$'000	$'000	$'000
Total assets	**13,566,418**	12,962,218	11,736,971	11,440,219	10,157,016
Total liabilities	**(7,588,871)**	(6,824,698)	(6,216,400)	(5,663,718)	(5,132,562)
Non-controlling interests	**(347,845)**	(372,075)	(319,271)	(357,267)	(380,430)
	5,629,702	5,765,445	5,201,300	5,419,234	4,644,024

The Group adopted HKFRS 9, Financial instruments from 1 January 2018. As a result, the Group has changed its accounting policies in relation to financial instruments. As allowed by HKFRS 9, the Group has not restated information relating to prior years. Differences in the carrying amounts of the financial assets resulting from the adoption of HKFRS 9 were recognised in retained earnings and reserves at 1 January 2018. There was no difference in the carrying amounts of the financial liabilities. Prior to 1 January 2018, figures were stated in accordance with the policies applicable in those years.

Details of Major Properties

1 INVESTMENT PROPERTIES

Location	Group's interest	Existing use
(a) Hong Kong		
16th, 21st, 23rd, 31st, 33rd and 36th Floor The Centrium No. 60 Wyndham Street, Central Hong Kong	100%	Commercial
Upper Ground Floor, Ground Floor and carpark The Centrium No. 60 Wyndham Street, Central Hong Kong	30%	Commercial
Units A, B, C and D on 2nd Floor Units A, B, C and D on 3rd Floor Units A, B, C and D on 4th Floor Units A and B on 6th Floor Units A, B and D on 10th Floor Units A, B, C and D on 12th Floor Unit B, C and D on 13th Floor Car Parking Space Nos. 7, 17, 18 and 19 and Lorry Parking Space Nos 3, 12, 13, 21, 25 and 26 Wah Shing Centre No. 5 Fung Yip Street Chai Wan Hong Kong	100%	Industrial and carparking
1st Floor of Block G Kimberley Mansion No. 15 Austin Avenue Tsim Sha Tsui Kowloon Hong Kong	100%	Residential
The 1st Floor and 2nd Floor On Lok Yuen Building and the four lavatories thereof Nos. 25, 27 & 27A Des Voeux Road Central Hong Kong	100%	Commercial

1 INVESTMENT PROPERTIES *(Continued)*

Location	Group's interest	Existing use
(a) Hong Kong *(Continued)*		
Unit No. 78 on 2nd Floor Units Nos. 4, 5, 6, 7 and 8 on 3rd Floor Houston Centre No. 63 Mody Road Tsim Sha Tsui Kowloon Hong Kong	100%	Commercial
Units J and L on 2nd Floor Private Car Parking Space Nos. G20 and G22 and Lorry Parking Space Nos. L3 and L4 on Ground Floor Kaiser Estate 2nd Phase Nos. 47-53 Man Yue Street and Nos. 20-28 Man Lok Street Hung Hom, Kowloon, Hong Kong	100%	Industrial and carparking
Units A, B and C on 7th Floor and the three lavatories thereof Century House Nos. 3-4 Hanoi Road Tsim Sha Tsui Kowloon Hong Kong	100%	Commercial
Units A, B and C on 8th Floor and the three lavatories thereof Century House Nos. 3-4 Hanoi Road Tsim Sha Tsui Kowloon Hong Kong	100%	Commercial

1 INVESTMENT PROPERTIES *(Continued)*

Location	Group's interest	Existing use
(a) Hong Kong *(Continued)*		
Units B and C on 9th Floor and the two lavatories thereof Century House Nos. 3-4 Hanoi Road Tsim Sha Tsui Kowloon Hong Kong	100%	Commercial
The whole of 4th Floor McDonald's Building Nos. 46-54 Yee Wo Street Causeway Bay Hong Kong	100%	Commercial
Unit 14 on 6th Floor Nan Fung Commercial Centre No. 19 Lam Lok Street Kowloon Bay, Kowloon Hong Kong	100%	Commercial
Flats A, B, C and D on 1st Floor Fu Fung Building Nos. 5-7 Tsing Fung Street North Point Hong Kong	100%	Commercial
2nd Floor No. 10A Austin Avenue Tsim Sha Tsui Kowloon Hong Kong	100%	Residential
Unit No. 1022 on 10th Floor Nan Fung Centre Nos. 264-298 Castle Peak Road and Nos. 64-98 Sai Lau Kok Road Tsuen Wan New Territories Hong Kong	100%	Commercial

1 INVESTMENT PROPERTIES *(Continued)*

Location	Group's interest	Existing use
(b) Mainland China		
Various buildings and a land parcel located at No. 28 Yunan North Road No. 2 Shiziqiao Gulou District Nanjing City Jiangsu Province The PRC	100%	Commercial
A building and a land parcel located at No. 32 Shiziqiao Gulou District Nanjing City Jiangsu Province The PRC	100%	Commercial
Various buildings and two land parcels located at No. 36 Jiefang Road Baixia District Nanjing City Jiangsu Province The PRC	100%	Commercial
Various buildings erected upon a land parcel located at No. 855 Yingtian Da Jie (formerly No. 166 Yingtian West Road) Jianye District Nanjing City Jiangsu Province The PRC	100%	Commercial
4th Floor No. 64 Ertiao Lane Baixia District Nanjing City Jiangsu Province The PRC	100%	Commercial

1 INVESTMENT PROPERTIES *(Continued)*

Location	Group's interest	Existing use
(b) Mainland China *(Continued)*		
Various buildings and two land parcels located at No. 104 & 160 Fenghuang East Road Luhe District, Dachang Nanjing City Jiangsu Province The PRC	100%	Commercial
Various buildings and a land parcel located at No. 262 Yuhua West Road Yuhuatai District Nanjing City Jiangsu Province The PRC	100%	Commercial
Various buildings and a land parcel located at No. 160 Honghua Village Qinhuai District Nanjing City Jiangsu Province The PRC	100%	Commercial
A building and a land parcel located at No. 2 Tuoyuan, Nanhu Street Jianye District Nanjing City Jiangsu Province The PRC	100%	Commercial
Various buildings and a land parcel located at No. 292 Shengzhou Road Jianye District Nanjing City Jiangsu Province The PRC	100%	Commercial

1 INVESTMENT PROPERTIES *(Continued)*

Location	Group's interest	Existing use
(b) Mainland China *(Continued)*		
Various buildings and a land parcel located at Zhetang Town Industrial Park Lishui County Nanjing City Jiangsu Province The PRC	100%	Industrial
An industrial complex located at No. 158 Jiangdong Middle Road Jianye District Nanjing City Jiangsu Province The PRC	100%	Industrial
Various buildings and a land parcel located at 462 Da Gu Nan Road Hexi District Tianjin City The PRC	100%	Commercial
Various buildings and a land parcel located at No. 51 Suti Road Nankai District Tianjin City The PRC	100%	Commercial/ Industrial
Various buildings and a land parcel located at Xin Le Road South Dianshanhu Town Kunshan City Jiangsu Province The PRC	100%	Industrial

1 INVESTMENT PROPERTIES *(Continued)*

Location	Group's interest	Existing use
(b) Mainland China *(Continued)*		
Unit C, 15th Floor World Trade Plaza No. 71 Wu Si Road Fuzhou City, Fujian Province The PRC	100%	Commercial
Industrial buildings located at Xiaobian Administrative Zone Industrial District No. 4 Changan Town Dougguan City, Guangdong Province The PRC	100%	Industrial
Avenue of Stars No. 168 Chaoyang Street, Shenhe District Shenyang City, Liaoning Province The PRC	80%	Commercial
(c) Taiwan		
Unit 1 on Level 24 and portion of Basement Level 2 No. 303 Zhongming Road South West District, Tu Fu Section, Taichung City Taiwan	100%	Commercial

2 INVESTMENT PROPERTIES PRESENTED AS NON-CURRENT ASSETS CLASSIFIED AS HELD FOR SALE

Location	Group's interest	Type
Hong Kong		
26th Floor The Centrium No. 60 Wyndham Street Central, Hong Kong	100%	Commercial

3 PROPERTIES UNDER DEVELOPMENT

Location	Marketable floor area/land area	Group's interest	Type
Mainland China			
Southern Lot No. 19 Jinqiao Road Dadong District Shenyang City Liaoning Province The PRC (Note)	140,000 sq.m.	100%	Commercial and residential

Note: The construction work of underground space, commercial podium and sale office were completed; the construction of residential and serviced apartment towers are underway as scheduled and expected to complete in 2019 onwards.

Location	Marketable floor area/land area	Group's interest	Type
East side of Guihua Road South Side of Dadong Road Siandian Town Wuqing district Tianjin City The PRC	88,000 sq.m.	100%	Commercial and residential