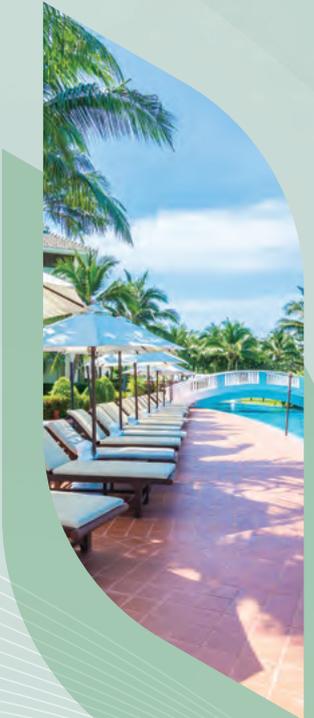




**First Shanghai Investments Limited**

Stock Code: 227

# 2019 Annual Report





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# Corporate Information

## BOARD OF DIRECTORS

### *Chairman*

Mr. LO Yuen Yat

### *Executive Directors*

Mr. XIN Shulin

Mr. YEUNG Wai Kin

### *Non-executive Director*

Mr. KWOK Lam Kwong, Larry, *S.B.S., J.P.*

### *Independent Non-executive Directors*

Prof. WOO Chia-Wei

Mr. LIU Ji

Mr. YU Qihao

Mr. ZHOU Xiaohe

## NOMINATION COMMITTEE

Prof. WOO Chia-Wei (*Chairman*)

Mr. LO Yuen Yat

Mr. YU Qihao

Mr. ZHOU Xiaohe

## REMUNERATION COMMITTEE

Mr. ZHOU Xiaohe (*Chairman*)

Mr. LO Yuen Yat

Prof. WOO Chia-Wei

Mr. YU Qihao

## AUDIT COMMITTEE

Mr. YU Qihao (*Chairman*)

Mr. KWOK Lam Kwong, Larry, *S.B.S., J.P.*

Prof. WOO Chia-Wei

Mr. LIU Ji

Mr. ZHOU Xiaohe

## COMPANY SECRETARY

Mr. YEUNG Wai Kin

## AUDITOR

PricewaterhouseCoopers

Certified Public Accountants

Registered Public Interest Entity Auditor

## PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited

Bank of Communications Co., Ltd.,

Hong Kong Branch

China CITIC Bank International Limited

China Construction Bank Corporation,

Hong Kong Branch

Dah Sing Bank, Limited

OCBC Wing Hang Bank Limited

Standard Chartered Bank (Hong Kong) Limited

## REGISTERED OFFICE

Room 1903, Wing On House

71 Des Voeux Road Central

Hong Kong

Telephone: (852) 2522 2101

Fax: (852) 2810 6789

E-mail address: enquiry@firstshanghai.com.hk

Website: www.firstshanghai.com.hk

## REGISTRARS & TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited

17th Floor, Hopewell Centre

183 Queen's Road East

Hong Kong

## STOCK CODE

Stock Code on The Stock Exchange of

Hong Kong Limited: 227

# Chairman's Statement

On behalf of the Board, I hereby present the Group's annual report and audited consolidated financial statements for the year ended 31st December 2019.

## MARKET OVERVIEW

2019 was a complex and challenging year. Global economy was characterized with notably volatility in view of the continuous trade protectionism and geopolitical uncertainties. The Sino-US trade tensions and the Brexit negotiation continued to hamper market sentiment, despite political uncertainties being eased in Italy and Spain. In 2019, the US financial market advanced with all three benchmark indices hit successive record highs, while the European markets rebounded significantly following the same momentum. On the other hand, central banks of major economies successively initiated a fresh round of interest rate cuts. This overshadowed concerns about slowing growth in corporate earnings. Facing the general shrink in the momentum of economic growth, the International Monetary Fund successively lowered its global economic growth forecast.

The financial market of Mainland China was revived with the expectation of a trade deal with the US and continuous fund inflows. However, the general economy was still in the midst of internal cyclical and structural adjustments. According to the latest figures of the National Bureau of Statistics of China, the annual GDP growth rate of China was 6.1% in 2019, indicating a slowing growth momentum. The concerns about slow pace of growth of the Chinese economy as a norm in future hindered the rebound of the financial market.

In 2019, domestic economy in Hong Kong was clouded by the expectation on slow economical growth in major economies. It was further impacted by social conflicts throughout the second half of the year. The financial market, following the global market trends, performed well in the first half of the year. However, with social conflicts becoming more frequent in the middle of the year and worries about corporate earnings, the stock market then fell.

## BUSINESS OVERVIEW

The Group adheres to its strategic business model and dedicates its efforts and resources to accelerating growth in various major business sectors, including Financial Services Sector, Property and Hotel Sector, Medical and Healthcare Sector and Direct Investment Sector. For the year ended 31st December 2019, the Group recorded a net profit and basic earnings per share attributable to shareholders of approximately HK\$11 million and HK0.75 cents respectively, as compared with approximately HK\$33 million and HK2.35 cents respectively in 2018.

After slides in 2018, the financial markets of major countries rebound in 2019. With uncertainties on trade tensions and concerns about slowdown in economic growth, the financial markets experienced fluctuations in commodity prices and currency rate. Despite interest rate cuts of various central banks, the interest rate in Hong Kong rose in the first half of 2019 and remained relatively high in the second half due to mega IPOs. The financial market in Hong Kong underperformed most major markets in 2019, with Hang Seng Index reached its peak of above 30,000 in April, following a drop by around 20% in August amid reduction on local consumption and investment and increase in political uncertainty.

During 2019, performance of our Financial Services Sector was impeded with the reduction of trading activities and pullback of market risk appetites of our retail margin clients, leading to diminished revenues from brokerage and margin financing business. In view of high market volatility, we continue to improve the credit control on our margin loan portfolio during the reporting year. Despite that, overall reduction in revenue was improved in the second half of 2019, with the increase in underwriting and advisory fee income upon completion of two IPOs on the Main Board by our corporate finance team.

## Chairman's Statement

In 2019, the property market in Mainland China as a whole reported stable development, with gradual price rise following relaxation on the control policies and benefited with capital inflows to the Chinese market. Upon completion of the construction work in 2018, and tracking enlarged marketing force implemented in 2019, recognised sales of properties from Huangshan property development project reported strong growth. In addition, with general rise in property prices, the Group has recorded revaluation gain from its investment properties. During 2019, the Group also endeavored to complete the construction of a new 4-star golf hotel in Paris. The soft opening of the golf hotel was held in June 2019, and the significant operating loss recorded at its initial investment stage had partially set off the operating profit of the Property and Hotel Sector.

This year is a challenge year to our Medical and Healthcare Sector. As a new market participant in Hong Kong, the Group aims to provide wide range of medical and healthcare services via its one-stop integrated medical centre in Central Hong Kong. Apart from the provision of general and specialist consultation, imaging, endoscopy and day surgery, body check and medic beauty services, we endeavor to further expand our service scope to rehabilitation and wellness and dental services in 2019. Located in Central and with increase in corporate partners, we reported gradual growth in patient volume. However, operating result was declined with increase in finance costs after recognition of interest expense on lease liabilities upon adoption of the new accounting standard. As a new participant in the industry, we will continue to expand our marketing force and our business cooperation with doctors, medical professionals, insurance companies and business partners so as to enlarge our market penetration.

## PROSPECTS

Looking ahead in 2020, we expect global and domestic economy will remain sensitive to geopolitical and macroeconomic uncertainties. Trade protectionism and political issues will continue to impede global economic growth. The recent outbreak of COVID-19 brings significant impacts over the world. China will stimulate its economy in 2020, but is unlikely to achieve annual GDP growth of more than 5%. China will accelerate infrastructure projects and this will stimulate the global economy as China imports materials and technology. As much as the world has had to adjust to a loss of global economic momentum now, companies need to be ready for the surge in demand that will come as the COVID-19 crisis passes. Our financial services and the medical and healthcare business are also facing great challenges. However, the Group will remain attentive to the development and trends to devise means to manage over a variety of risks and uncertainties.

Under the volatile market environment, our Financial Service Sector will maintain a cautious and proactive approach regarding the credit control of our margin financing business. We will continue to improve our operational efficiency and internal control system, reinforce market knowledge and customer concerns so as to seize business opportunity in a timely manner under the rapidly changing environment. We shall also pursue to enhance our online trading platform, and widen our product scope and customer base to cope with market demands. Benefited from experienced expertise and sound reputation in the industry, together with the synergies brought forward by full range of financial services offered by the Group including brokerage, asset management, financial advisory, IPO sponsorships and insurance brokerage, we will continue to enhance our service and strengthen our business platform for further development.

Regarding the Medical and Healthcare Sector, we foresee challenges brought by the outbreak of COVID-19 over the coming few months will highly affect general operational conditions and hinder our business development plan. However, crises create opportunities, we are confident that public health awareness will be reinforced in long run, leading to increase in demand in high quality medical and healthcare services. Supported by our caring and professional frontline doctors and clinical staff, we are committed to strengthen our service quality and innovate with new solutions to our patients and clients via committed investment in new technology and platform, including tele-consultation, advanced imaging, endoscopy and day surgery equipments and various healthcare and wellness solutions.

As long term sustainable strategy, we will continue to balance our business growth with dual-engine on both financial services and medical and healthcare industries. We will also continue to look for new direct investment opportunities on both business sectors. With strong market demand for quality and high standard financial services and medical and healthcare services, both from Hong Kong and Mainland China, we are confident with the continuous growth to the Group.

We will also consistently push forward our existing investment strategy to further expand our Direct Investment business. We commit to seek opportunities so as to enlarge our presence in industries with advantage synergies aiming to optimize returns to the Company and its shareholders.

### APPRECIATION

I would like to take this opportunity to express my greatest appreciation on behalf of the Board to all our customers for their invaluable support and to our fellow directors and our employees for their dedication and commitment.

**LO Yuen Yat**

*Chairman*

Hong Kong, 27th March 2020

# Management Discussion and Analysis

## FINANCIAL REVIEW

### Overview

For the year ended 31st December 2019, the Group recorded a net profit attributable to shareholders of approximately HK\$11 million, representing a decrease of 68% as compared to approximately HK\$33 million recorded last year. The reduction on net profit was mainly attributable to the Medical and Healthcare Sector which was affected by the adoption of HKFRS 16 “Leases” (effective from 1st January 2019) resulting in the increase in depreciation charges and finance costs over the related rental expenses. The result was further reduced by recognition of impairment provision on certain right-of-use assets based on value-in-use calculations using cash flow projection and increase in operating costs. On the other hand, performance from our Property and Hotel Sector was improved with the increase in valuation gain arising from property price rise and the increase on sales of property reported from Huangshan property development project. However, the upward impact was partially offset by an one-off accounting loss and reduction in share of profit in 2019 upon disposal of a joint venture and the recognition of operating expenses for a newly opened hotel in Paris. The basic earnings per share attributable to shareholders was HK0.75 cents (2018: HK2.35 cents). Revenue of the Group was approximately HK\$534 million, with an increase of 13% as compared to 2018 with the increase in contribution from our medical centre and our property development project in Huangshan. Total net assets of the Group dropped by 2% from approximately HK\$2,775 million in 2018 to approximately HK\$2,711 million in 2019.

### Financial Services

The Group’s Financial Services Sector provides a full range of financial services including securities investment, securities broking, margin financing, corporate finance, underwriting and placements and asset management. Operating profit reported from Financial Services Sector slightly reduced by 1% from 2018 mainly due to decrease in margin loan interest income and brokerage commission income. The impact was partially offset by improved performance from our corporate finance team, which was able to complete two IPO transactions and thus bringing increase in underwriting and consultancy fee income as compared with 2018.

In 2019, the Hong Kong stock market continued the volatile trends from 2018 while the market turnover dropped as compared to last year. The progress on Sino-US trade war affected the market sentiment throughout the year until US and China reached the “phase one” settlement agreement on trade deal in mid-December. Heng Sang Index reached this year high at 30,280 in mid-April and closed at 28,190 as at year end, representing a raise by 9% as compared to last year. Average daily market turnover dropped 19% from HK\$107 billion in 2018 to HK\$87 billion in 2019, which align with the drop of brokerage commission income and margin loan interest income of our brokerage business.

Regarding our corporate finance business, we continued to focus on financial advisory cases during the reporting year. In 2019, eleven financial advisory cases and two IPO transactions were completed. Income from advisory services increased by 39% as compared with 2018.

### Property and Hotel

The Group’s Property and Hotel Sector primarily involves in property development, property investment, property management, hotel and golf operation. Currently we participate in development of various kinds of properties mainly located at the third and fourth tier cities in Mainland. They include residential, service apartment, commercial office, industrial office, hotel and recreation resort. During 2019, operating profit from Property and Hotel Sector increased by 68% from 2018. The improvement was mainly attributable to the increase in sales of properties from Huangshan property development project following enlarge in marketing force implemented, and the increase in revaluation gains of investment properties held by the Group tracking recovery on general property market. However, the upward impact was partially offset by an one-off accounting loss and reduction in share of profit in 2019 upon disposal of a joint venture and the recognition of operating expenses for a newly opened hotel in Paris.

## Management Discussion and Analysis

As at 31st December 2019, the Group held six property investment and development projects with total GFA as summarised below:

Location	Product nature	Expected completion date (Year)	% of interest attributable to the Group	Total GFA (sq.m.)	Accumulated area sold (sq.m.)
Elite Place, No. 588 Chuangye Road, Kunshan Development Area, Kunshan, Suzhou City, Jiangsu Province, PRC*	Residential	Completed	70%	55,000	47,000
First Shanghai Plaza, No.19 Gaolang Road, Wuxi New District, Wuxi City, Jiangsu Province, PRC*	Hotel, commercial and apartment	Completed	100%	95,000	14,000
Singapore International Park, No.89 Xingchuang Fourth Road, Wuxi New District, Wuxi City, Jiangsu Province, PRC*	Office and industrial				
– Phase I		Completed	70%	38,000	21,000
– Phase II		Completed	70%	31,000	–
– Phase III		Completed	70%	35,000	–
Fenghuang Road Huangshan District, Huangshan, Anhui, PRC	Residential and recreation resort				
– Phase A		Completed	100%	12,000	7,000
– Phase B		Completed	100%	23,000	12,000
– Phase C, D, E		2022	100%	49,000	–
Ru Shan Hu, Eastern side of Chang Jiang Water Reservoir, Zhongshan, Guangdong, PRC	Residential and recreation resort	2022	99.99%	64,000	–
Section E 589 & Section E 628, Commune de Presles, L'Isle Adam, France	Hotel and recreation resort	Completed	100%	6,000	–
<b>Total</b>				<b>408,000</b>	<b>101,000</b>

\* Certain properties in these locations were held for investment purposes. All of them were located outside Hong Kong and held on a medium term lease.

## Management Discussion and Analysis

During 2019, revenue from sale of properties increased by 64% as compared to 2018, mainly generated from recognition of sales of certain properties of Huangshan property development project. In the coming year, we will continue to focus on completion of the existing development projects and the sales of properties in Wuxi and Huangshan.

Our property investment and management business is one of the steady income generators of the Group. It reported a decrease in revenue by 7% during the reporting year which attributable to the re-development plan of the property managed. Investment properties held by the Group reported an increase in fair value gains by 79% as compared to 2018, marked to the general increase in property prices in Mainland.

Hotel and golf operation reported an increase in revenue by 12% in 2019 as compared to 2018. It was mainly attributable to our new golf hotel in Paris which commenced its operation since late June 2019. Meanwhile, the related operating results were dampened after recognition of operating expenses for this newly opened hotel.

### Medical and Healthcare

The Group explored to the Medical and Healthcare Sector by setting up a medical centre in Central, aiming at providing one-stop integrated medical services to patients from Hong Kong and Mainland. Revenue of the medical centre increased by 42% as compared to 2018. The overall utilization rate was improved though still low during the initial development stage. We will continue to expand our scope of services and improve operation efficiency. Operating loss reported increased by 14% primarily due to the adoption of HKFRS 16 “Leases” (effective from 1st January 2019) which resulted in the increase in depreciation charges and finance costs over the related rental expenses. The result was further reduced by recognition of impairment provision on certain right-of-use assets based on value-in-use calculations using cash flow projection and increase in operating costs.

### Direct Investment

Direct Investment Sector reported reduction in operating loss as compared with 2018. It was mainly attributable to various cost reduction measures implemented to non-profit making entities and recovery of long outstanding debts. Focusing our internal resources over the financial services and medical and healthcare business, no new direct investment launched in 2019.

## LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group relies principally on its internal financial resources to fund its operations and investment activities. Bank and other loans will be raised to meet the different demands of our property projects, as well as margin financing and direct investment business. As at 31st December 2019, the Group had raised bank and other loans of approximately HK\$378 million (2018: HK\$269 million) and held approximately HK\$227 million (2018: HK\$399 million) cash reserves. The gearing ratio (total borrowings to shareholders’ fund) slightly increased to 13.9% (2018: 9.7%).

During the reporting year, there was no change on the Group’s overall share capital structure. As at 31st December 2019, the total number of issued ordinary shares was 1,418,973,012 shares (2018: 1,418,973,012 shares).

The Group’s licensed subsidiaries are subject to various statutory capital requirements in accordance with the Securities and Futures (Financial Resources) Rules (Cap. 571N) and the Insurance (Financial and Other Requirements for Licensed Insurance Broker Companies) Rules (Cap.41 Sub. Leg. L). During the financial year ended 31st December 2019, all licensed corporations within the Group complied with their respective requirements.

The Group's principal operations are transacted and recorded in Hong Kong dollars, Renminbi and EURO. The Group has no significant exposure to other foreign exchange fluctuations. The Group has not used any derivatives to hedge its exposure to foreign exchange risk.

### **MATERIAL ACQUISITION AND DISPOSAL**

On 26th August 2019, the Group entered into an agreement to dispose the Group's 50% equity interest in Shanghai Zhangjiang Property Development Company Limited, a jointly controlled entity, for a cash consideration of approximately RMB200 million. The transaction was approved by shareholders of the Company at an extraordinary general meeting held on 15th October 2019. The Group recorded an accounting loss on disposal of approximately HK\$2 million in 2019 and has received the entire sales proceeds in early 2020.

### **CHARGES OF GROUP ASSETS**

The Group has pledged freehold land, properties, investment properties, leasehold land and land use rights, properties under development and properties held for sale with an aggregate net carrying value of approximately HK\$703 million (2018: HK\$1,052 million) and fixed deposits of approximately HK\$15 million (2018: HK\$38 million) against its bank loans and general banking facilities. The banking facilities amounted approximately HK\$312 million (2018: HK\$263 million) had been utilised.

### **CONTINGENT LIABILITIES**

The Group has provided guarantees in respect of mortgage facilities granted by certain banks relating to mortgage loans arranged for certain purchasers of the Group's properties in China. Pursuant to the terms of the guarantees, upon default in mortgage payments by these purchasers, the Group will be responsible for repaying the outstanding mortgage principals together with accrued interest and penalty owed by the defaulted purchasers to the banks, whilst the Group will then be entitled to take over the legal title and possession of the related properties. Such guarantees will terminate upon issuance of the relevant property ownership certificates.

As at 31st December 2019, total contingent liabilities relating to these guarantees amounted to approximately HK\$5 million (2018: HK\$7 million).

### **HUMAN RESOURCES**

The objectives of the Group's human resources management is to reward and recognise performing staff through a competitive remuneration package and a sound performance appraisal system with appropriate incentives, and to promote career development and progression within the Group. Employees' remuneration is performance based and is reviewed annually. In addition to basic salary payments, other staff benefits include discretionary bonus, medical schemes, defined contribution provident fund schemes and employee share option scheme. Staff are enrolled in external and internal training courses or seminars in order to update their professional knowledge and technical skills so as to increase their awareness of market development and business trend. As at 31st December 2019, with expansion in the golf hotel in Paris and medical centre in Hong Kong, the Group employed 740 staff, of whom 426 are based in Mainland China. The staff costs of the Group for the year ended 31st December 2019 amounted to approximately HK\$250 million (2018: HK\$213 million).

# Biographical Details of Directors and Senior Management

## EXECUTIVE DIRECTORS

**Mr. LO Yuen Yat** (74). Appointed as Managing Director of the Company in 1993. Mr. Lo joined the Company in 1993 and is currently the Chairman of the Company. Previously, Mr. Lo was the senior policy researcher at China's National Research Centre for Science & Technology and Social Development, and worked at the State Science & Technology Commission, Ministry of Communications and Railway Ministry of the PRC. Mr. Lo graduated from Shanghai Fudan University and obtained his master degree from Harvard University.

**Mr. XIN Shulin** (66). Appointed as Director of the Company in 1998. Mr. Xin joined First Shanghai Investments Limited in 1994 as Executive Vice President in charge of direct investment and property development business including luxury hotel and full service hospital. He graduated from Lanzhou University in 1982 and obtained his MBA degree from University of Denver, USA in 1992.

**Mr. YEUNG Wai Kin** (58). Appointed as Director of the Company in 1998. Mr. Yeung is also Chief Financial Officer and Company Secretary of the Company. He joined the Company in 1993 and has over 30 years experience in auditing, finance and management positions. Mr. Yeung possesses professional membership of the Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants and the Taxation Institute of Hong Kong. He has a bachelor's degree in law from Peking University.

## NON-EXECUTIVE DIRECTOR

**Mr. KWOK Lam Kwong, Larry, S.B.S., J.P.** (64). Appointed as Independent Non-executive Director of the Company in 1994 and has been re-designated to Non-executive Director of the Company in 2005. Mr. Kwok is a practising solicitor in Hong Kong and is qualified to practise as a solicitor in Australia, England and Wales and Singapore. He is also qualified as a certified public accountant in Hong Kong and Australia and a Chartered Accountant in England and Wales. He graduated from the University of Sydney, Australia with bachelor's degrees in economics and laws respectively as well as a master's degree in laws. He also obtained the Advanced Management Program Diploma from the Harvard Business School.

## INDEPENDENT NON-EXECUTIVE DIRECTORS

**Professor WOO Chia-Wei** (82). Appointed as Independent Non-executive Director of the Company in 1993. Prof. Woo is currently Senior Advisor to Shui On Holdings Limited, and President Emeritus of the Hong Kong University of Science and Technology. Previously he was President, Provost, Department Chairman, and Professor of several prominent universities in the United States of America. He is also an independent non-executive director of Shanghai Industrial Holdings Limited.

**Mr. LIU Ji** (84). Appointed as Independent Non-executive Director of the Company in 2004. Mr. Liu is the Honorary President of China Europe International Business School in Shanghai. He served as Deputy Chairman, Research Fellow and Member of the Academic Board, The Chinese Academy of Social Sciences, and Executive President of China Europe International Business School. Mr. Liu graduated from the Department of Power Mechanical Engineering, Qinghua University, Beijing. Mr. Liu is also an independent director of O2micro International Limited, a NASDAQ-listed company.

## Biographical Details of Directors and Senior Management

**Mr. YU Qihao** (73). Appointed as Independent Non-Executive Director of the Company in 2005. Mr. Yu is a certified public accountant, PRC. He graduated from Shanghai University of Finance and Economics. From 1981 to 1991, Mr. Yu worked as a certified public accountant in an accounting firm in Shanghai. From 1992 to 1998, he acted as the assistant president of Shanghai Industrial Investment (Holdings) Company Limited. Mr. Yu also worked as an executive director from 1995 to 1997 and a non-executive director from 1997 to 1998 of Shenyin Wanguo (H.K.) Limited. During the period from 2001 to 2006, Mr Yu was an advisor of Deloitte Touche Tohmatsu CPA Ltd in Shanghai.

**Mr. ZHOU Xiaohe** (67). Appointed as Independent Non-executive Director of the Company in 2007. Mr. Zhou has extensive experience in investment and financing industries. He was educated in China and graduated from the Beijing Industrial University major in Computer Automation. Mr. Zhou was a non-executive director of the Company from 18th May 1995 to 16th June 1998.

### SENIOR MANAGEMENT

**Mr. QIU Hong** (50). Joined the Group in 2000 and is currently the Chief Executive Officer of First Shanghai Financial Holding Limited. Mr. Qiu is responsible for the management and business development of the Group's financial service business. Prior to joining the Group, Mr. Qiu had worked for an international audit and consulting company and was responsible for the audit, strategic planning and corporate financing activities. With extensive experience and expertise in financial industry, Mr. Qiu is specializing in corporate financing, stockbrokerage and investment in Hong Kong and Chinese Mainland. Mr. Qiu holds a Bachelor's Degree in Economics from the Zhong Shan University and a Master of Philosophy (Economics) degree from the Chinese University of Hong Kong.

# Report of the Directors

The Board submits herewith their report together with the audited consolidated financial statements for the year ended 31st December 2019.

## PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The activities of its principal subsidiaries are set out in Note 18 to the consolidated financial statements.

An analysis of the Group's performance for the year by operating and geographical segments is set out in Note 4 to the consolidated financial statements.

## RESULTS

The results for the year are set out in the consolidated income statement on page 33.

## DIVIDEND

The Board does not recommend the payment of a final dividend (2018: Nil) for the year ended 31st December 2019.

## SHARE CAPITAL

Details of the movements in share capital of the Company for the year ended 31st December 2019 are set out in Note 31 to the consolidated financial statements.

## DISTRIBUTABLE RESERVES

Distributable reserves of the Company as at 31st December 2019, calculated pursuant to Part 6 of the Hong Kong Companies Ordinance (Cap. 622), amounted to HK\$524,565,000 (2018: HK\$537,528,000).

## DONATIONS

Charitable and other donations made by the Group during the year amounted to HK\$68,000 (2018: HK\$68,000).

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

The Company has not redeemed any of its securities and neither the Company nor any of its subsidiaries purchased or sold any of its securities listed on The Stock Exchange of Hong Kong Limited ("Stock Exchange") during the year ended 31st December 2019.

## DIRECTORS

### (a) Directors of the Company

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

- Mr. LO Yuen Yat
- Mr. XIN Shulin
- Mr. YEUNG Wai Kin
- \* Mr. KWOK Lam Kwong, Larry, S.B.S., J.P.
- \*\* Prof. WOO Chia-Wei
- \*\* Mr. LIU Ji
- \*\* Mr. YU Qihao
- \*\* Mr. ZHOU Xiaohe
  
- \* *Mr. KWOK Lam Kwong, Larry, S.B.S., J.P. is a non-executive director of the Company.*
- \*\* *Prof. WOO Chia-Wei, Mr. LIU Ji, Mr. YU Qihao and Mr. ZHOU Xiaohe are independent non-executive directors of the Company.*

Mr. LO Yuen Yat, Mr. KWOK Lam Kwong, Larry, S.B.S., J.P. and Mr. LIU Ji retire in accordance with the Company's Articles of Association and being eligible, offer themselves for re-election.

**(b) Directors of the Company's subsidiaries**

During the year and up to the date of the report, Mr. LO Yuen Yat, Mr. XIN Shulin and Mr. YEUNG Wai Kin were also directors in certain subsidiaries of the Company. Other directors of the Company's subsidiaries during the year and up to the date of this report included: Cao Yanlan, Chen Peili, Cheng Chi Kwong, Cheng Sai Wai, Christophe Davezac, Cui Xiao Wen, Fabrice Seemann, Feng Zhemin, Guan Yuqiang, Hai Alvin, Hao Yaxin, Lai Ho Yin, Lao Li, Lao Yuanyuan, Lee Lai Ching, Lee Man Piu, Li Yanping, Lim Huan Long, Liu Xiaoming, Lo Kwok Loong, Mo Siu Lun, Qiu Hong, Qu Kevin, Shing Kwong Yeung, So Chi Chiu, Teo Ban Seng, Tsang Lai San, Wan Ching Man, Wang Jiabin, Wu Jie, Xu Zhanzhao, Yang Erguan, Zhou Lihua and Zhu Guoliang.

**DIRECTORS' SERVICE CONTRACTS**

Each of the non-executive directors of the Company has entered into a service contract with the Company for a term of two years. Such term is subject to his re-appointment by the Company at general meeting upon retirement by rotation pursuant to the Articles of Association of the Company.

**DIRECTORS' MATERIAL INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS THAT ARE SIGNIFICANT IN RELATION TO THE COMPANY'S BUSINESS**

Save as disclosed in Note 37(b) to the consolidated financial statements, no transactions, arrangements and contracts of significance in relation to the Group's business to which the Company or its subsidiaries was a party, and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

**PERMITTED INDEMNITY PROVISION**

The Company has arranged insurance for its directors to cover their liabilities in respect of legal actions against them arising from corporate activities. The permitted indemnity provision is in force for the benefit of the directors as required by section 470 of the Hong Kong Companies Ordinance (Cap. 622) when the Report of the Directors is approved in accordance with section 391(1)(a) of the Hong Kong Companies Ordinance (Cap. 622).

**DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY OR ANY SPECIFIED UNDERTAKING OF THE COMPANY OR ANY OTHER ASSOCIATED CORPORATION**

As at 31st December 2019, the interests of each director and chief executive in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept by the Company under Section 352 of SFO or as notified to the Company were as follows:

**Interests in respect of the Company:**

Directors		Number of shares and underlying shares held			% of issued share capital of the Company
		Personal interests	Corporate interests	Total	
Mr. LO Yuen Yat (Note)	Long position	98,725,636	321,506,500	420,232,136	29.62%
Mr. YEUNG Wai Kin	Long position	11,872,304	–	11,872,304	0.84%
Mr. ZHOU Xiaohe	Long position	160,000	–	160,000	0.01%

Note: 72,952,000 shares, 248,338,500 shares and 216,000 shares are held by Kinmoss Enterprises Limited ("Kinmoss"), China Assets (Holdings) Limited ("CAHL") and New Synergies Investments Company Limited ("New Synergies") respectively. Kinmoss is a company wholly owned by Mr. LO Yuen Yat. CAHL is a company 40% indirectly owned by Mr. LO Yuen Yat through New Synergies and New Synergies is a company with 40% equity interests directly owned by Mr. LO Yuen Yat.

## Report of the Directors

Saved as disclosed above, as at 31st December 2019, none of the directors and chief executives (including their spouse and children under 18 years of age) had any interest in shares, underlying shares and debentures of the Company, its specified undertaking and its other associated corporation required to be disclosed pursuant to the SFO and the Hong Kong Companies Ordinance (Cap. 622).

### SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained under Section 336 of the SFO shows that as at 31st December 2019, the Company had been notified of the following substantial shareholder's interests, holding 5% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the directors.

#### Ordinary shares in the Company:

		Personal interests	Family interests	Other interests	Total	% of issued share capital of the Company
Ms. CHAN Chiu, Joy ("Ms. Chan") (Note)	Long position	61,576,000	12,432,000	63,640,000	137,648,000	9.70%
Mr. YIN Jian, Alexander ("Mr. Yin") (Note)	Long position	12,432,000	61,576,000	63,640,000	137,648,000	9.70%

Note: 63,640,000 shares are held by The Golden Bridge Settlement, a trust with Ms. Chan and Mr. Yin as beneficiaries.

### SHARE OPTIONS

On 23rd May 2014, the shareholders of the Company approved a share option scheme (the "Scheme"). No share options were granted under the Scheme during the year. The purpose of the Scheme is to assist in recruiting, retaining and motivating key staff members. Under the terms of the Scheme, the directors have the discretion to grant to employees and directors of any member of the Group to subscribe for shares in the Company.

The Company can issue options so that the total number of shares that may be issued upon exercise of all options to be granted under the Scheme does not in aggregate exceed 10% of the shares in issue on the date of approval of the Scheme. The Company may renew this limit at any time, subject to shareholders' approval and the issue of a circular and in accordance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") provided that the number of shares to be issued upon exercise of all outstanding options granted and yet to be exercised under the Scheme does not exceed 30% of the shares in issue from time to time.

As at 31st December 2019, options to subscribe for a total of 139,891,301 ordinary shares were subject to be granted under the Scheme which represents approximately 10% of the issued ordinary shares of the Company.

The total number of shares issued and which may fall to be issued upon exercise of the options granted under the Scheme to each participant in any 12-month period shall not exceed 1 percent of the issued share capital of the Company for the time being.

The consideration for the grant of options is HK\$1.00. The Scheme participant is entitled to subscribe for shares during such period as may be determined by the directors (which shall be less than 10 years from the date of the grant of the relevant option and commences not less than six months after the date of grant) at the price to be determined by the Board but not less than the highest of the average of the official closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date on which the option is granted and the official closing price of the shares on the Stock Exchange on the date of grant.

No share options were granted, exercised, lapsed or outstanding under the Scheme during the year ended 31st December 2019.

The accounting policy adopted for share options is consistent with that as described in the consolidated financial statements for the year ended 31st December 2019.

### **MANAGEMENT CONTRACTS**

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

### **MAJOR CUSTOMERS AND SUPPLIERS**

The aggregate percentages of sales and purchases attributable to the Group's five largest customers and suppliers are both less than 30% for 2019 and 2018.

### **CONNECTED TRANSACTION**

The Company did not have any connected transactions which need to be disclosed during the year ended 31st December 2019.

### **SUFFICIENCY OF PUBLIC FLOAT**

Based on information that is publicly available to the Company and within the knowledge of its directors as at the latest practicable date prior to the issue of this report, the Company has maintained sufficient public float as required under the Listing Rules during the year.

### **BUSINESS REVIEW**

Further discussion and analysis of the Group's business as required by Schedule 5 to the Hong Kong Companies Ordinance, including (a) a fair review of the Group's business; (b) a description of the principal risks and uncertainties facing the Group; (c) particulars of important events affecting the Group that have occurred since the end of the financial year; and (d) an indication of likely future development in the Group's business, please refer to "Management Discussion and Analysis" and "Corporate Governance Report" sections of this Annual Report. The above sections form part of this report. In accordance with Rule 13.91 of and Appendix 27 to the Listing Rules, the Group's "Environmental, Social and Governance Report" will be available on its website within three months from the publication of this Annual Report.

## Report of the Directors

### FIVE YEAR FINANCIAL SUMMARY

The summary of assets, liabilities and results of the Group for the last five financial years is as follows:

	2019 HK\$'000	2018 HK\$'000	2017 HK\$'000	2016 HK\$'000	2015 HK\$'000
Revenue	<b>533,529</b>	473,726	446,445	390,792	491,923
Profit/(loss) attributable to					
– shareholders	<b>10,618</b>	33,403	61,944	(49,909)	134,862
– non-controlling interests	<b>4,967</b>	3,353	2,362	(6,051)	(205)
Earnings/(losses) per share					
– basic	<b>0.75 cents</b>	2.35 cents	4.37 cents	(3.52) cents	9.61 cents
– fully diluted	<b>0.75 cents</b>	2.35 cents	4.37 cents	(3.52) cents	9.58 cents
Total current assets	<b>4,181,863</b>	5,138,904	5,551,457	5,541,822	5,026,668
Total assets	<b>6,007,755</b>	6,863,028	7,253,851	6,960,638	6,912,554
Total current liabilities	<b>2,784,694</b>	3,841,057	4,101,095	3,911,217	3,481,363
Total liabilities	<b>3,296,488</b>	4,087,870	4,392,317	4,180,768	3,744,774
Total equity	<b>2,711,267</b>	2,775,158	2,861,534	2,779,870	3,167,780
Gearing ratio	<b>13.9%</b>	9.7%	22.6%	20.1%	12.0%

### AUDITOR

The consolidated financial statements have been audited by PricewaterhouseCoopers, who retire and, being eligible, offer themselves for re-appointment.

By order of the Board

**LO Yuen Yat**

*Chairman*

Hong Kong, 27th March 2020

# Corporate Governance Report

## CORPORATE GOVERNANCE PRACTICES

The Board of the Company believes that corporate governance is essential to the success of the Company and has adopted various measures to adhere to a high standard of corporate governance to safeguard the interest of its stakeholders. The Company has adopted its code on corporate governance (the “Code”) which sets out the corporate standards and practices used by the Company in directing and managing its business affairs. The Code was prepared with reference to the latest code provisions and recommended best practices as stipulated in Appendix 14 (the “CG Code”) of the Rules Governing the Listing of Securities (the “Listing Rules”) on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The Code not only formalizes the Company’s existing corporate governance principles and practices, but also serves to assimilate practices with benchmarks prescribed by the Stock Exchange, ultimately ensuring that the Company runs a highly transparent operation and is accountable to its shareholders. In addition to abiding strictly by the laws and regulations of Hong Kong and observing the rules and guidelines issued by the relevant regulatory authorities, the Company will also regularly review its corporate governance practices, with a view to conforming to international and local best practices.

The Company has complied with all the code provisions as set out in the CG Code for the year ended 31st December 2019, except for the deviation from code provision A.2.1 in respect of segregation of the roles of chairman and chief executive officer. Such deviation will be discussed in the relevant sections of this report in more details. The Board will continuously review and improve the corporate governance practices and standards of the Company to ensure that business activities and decision making processes are regulated in a proper and prudent manner.

## BOARD OF DIRECTORS

### Role and responsibility of the Board

The Board is responsible for overall leadership, strategic development and risks and controls assessment of the Group. The Board is also responsible to ensure good corporate governance is in place with the Group. The Board works to promote the success of the Group by providing direction and approval in relation to matters concerning the Company’s business strategies and policies and monitoring the overall performance of the management. Day-to-day management and operation of the Group is delegated to the executive directors and the senior management of operation units who is required to report to the Board on regular basis.

Members of the Board are individually and collectively accountable to the shareholders for the success and sustainable development of the Company. In discharging its corporate accountability, every director is required to pursue excellence in the interests of the shareholders of the Company and fulfill his fiduciary duties by applying the required level of skills, care and diligence to a standard in accordance with the statutory requirements.

The schedule of Board meetings for a year is planned in the preceding year. The Board meets regularly throughout the year. During the reporting year, there were four Board meetings held to discuss the overall strategy as well as the operation and financial performance of the Group.

### Board composition

The Board comprises of three executive directors and five non-executive directors. Of the five non-executive directors, four of them are independent non-executive directors that represent more than one-third of the Board. In addition, two of the non-executive directors possess appropriate professional accounting qualifications and financial management expertise. There is no relationship between members of the Board.

## Corporate Governance Report

The Board of the Company comprises:

Executive Directors:

Mr. LO Yuen Yat (*Chairman*)  
Mr. XIN Shulin  
Mr. YEUNG Wai Kin

Non-executive Director:

Mr. KWOK Lam Kwong, Larry, *S.B.S., J.P.*

Independent Non-executive Directors:

Prof. WOO Chia-Wei  
Mr. LIU Ji  
Mr. YU Qihao  
Mr. ZHOU Xiaohe

### Chairman and chief executive officer

The Chairman and chief executive officer of the Company is Mr. LO Yuen Yat. This deviates from code provision A.2.1 of the CG Code which stipulates that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

The Board believes that vesting the role of both positions in Mr. Lo provides the Group with strong and consistent leadership and allows for more effective planning and execution of long-term business strategies. The Board also considers that this structure will not impair the balance of power and authority between the Board and the management of the business of the Group given that there is a strong and independent non-executive element on the Board. The Board believes that the structure outlined above is beneficial to the Company and its business.

### Non-executive directors

Each of the non-executive directors of the Company has entered into a service contract with the Company for a term of two years. Such term is subject to his re-appointment by the Company at annual general meeting upon retirement by rotation pursuant to the Articles of Association of the Company.

The non-executive directors serve an important function of ensuring and monitoring the basis for an effective corporate governance framework. With a wide range of expertise and a balance of skills, the non-executive directors bring independent judgement on issues of strategic direction, development, performance and risk management through their contribution at board meetings and committee work.

The Board considers that each independent non-executive director is independent in character and judgement and that they all meet the specific independence criteria as required by the Listing Rules. The Company has received from each independent non-executive director an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and the Company considers such directors to be independent.

### Board diversity policy

The Board has adopted a board diversity policy, under which the Company seeks to achieve board diversity through the consideration of a number of factors in the Board members' selection process, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. All Board members' appointments will be based on appropriate balance of skills, experience and diversity of perspectives, and candidates will be considered against objective criteria, having due regard for the merit and contribution to the Board.

**Appointment and re-election of directors**

In accordance with the Company’s Articles of Association, at each annual general meeting, one-third of the directors of the Board for the time being (or, if their number is not a multiple of three, the number nearest to one-third) shall retire from office by rotation provided that each director shall be subject to retirement at least once every three years. A retiring director shall be eligible for re-election.

**Continuous professional development of directors**

The Company acknowledges the importance of directors’ participating in appropriate continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant.

Directors’ training is an ongoing process. Internal or external briefings and seminars are arranged from time to time for all directors to participate. The Company will arrange and sponsor suitable training for its directors as required. In addition, the directors are briefed, from time to time, on the amendments or updates on the relevant laws, rules and regulations, to ensure compliance and enhance their awareness of good corporate governance practices. While newly appointed director is provided with necessary induction and information to ensure that he/she is sufficiently aware of his/her responsibilities under the relevant statutes, laws, rules and regulations.

According to the records obtained by the Company, a summary of training received by the directors during the reporting year is as follows:

Name of directors	Types of continuous professional development
Mr. LO Yuen Yat	A, B
Mr. XIN Shulin	A, B
Mr. YEUNG Wai Kin	A, B
Mr. KWOK Lam Kwong, Larry, <i>S.B.S., J.P.</i>	A, B
Prof. WOO Chia-Wei	A, B
Mr. LIU Ji	A, B
Mr. YU Qihao	B
Mr. ZHOU Xiaohe	B

Notes:

A – attending briefing sessions and/or seminars

B – reading seminar materials, journals and/or updates relating to the economy, general business and latest development of applicable regulatory requirements

**Directors’ securities transactions**

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (“Model Code”) as set out in Appendix 10 of the Listing Rules for securities transactions by directors of the Company. All the members of the Board have confirmed, following specific enquiry by the Company that they have complied with the required standard as set out in the Model Code throughout the reporting year.

## Corporate Governance Report

### Disclosure for remuneration of directors and senior management

Details of the remuneration of directors and senior management for the year ended 31st December 2019 are set out in Note 12 to the consolidated financial statements.

### BOARD COMMITTEES

The Board has established three specialised committees (the “Board Committees”) namely the nomination committee (the “Nomination Committee”), the remuneration committee (the “Remuneration Committee”) and the audit committee (the “Audit Committee”) to assist in carrying out and discharging duties and responsibilities efficiently and effectively. The Board Committees function within clearly defined terms of reference which are reviewed from time to time. The structure and effectiveness of each Board Committee is also constantly reviewed by the Board.

#### Nomination Committee

The Nomination Committee was established on 1st March 2012, with written terms of reference adopted upon its establishment. The majority of the Nomination Committee members are independent non-executive directors and its members include:

Executive Director:	Mr. LO Yuen Yat
Independent Non-executive Directors:	Prof. WOO Chia-Wei ( <i>Committee Chairman</i> ) Mr. YU Qihao Mr. ZHOU Xiaohe

The Nomination Committee was set up to assist the Board to review the structure, size, composition and diversity of the Board, identify individuals and make recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors and assess the independence of independent non-executive directors.

During the reporting year, one meeting was held to review the structure, size, composition (including the perspectives, knowledge and experience) and diversity of the Board. The Nomination Committee has also obtained the annual confirmation of independence submitted by the independent non-executive directors and has assessed their independence with satisfactory results.

#### Remuneration Committee

The Remuneration Committee was established on 30th June 2005, with written terms of reference adopted upon its establishment. The majority of the Remuneration Committee members are independent non-executive directors and its members include:

Executive Director:	Mr. LO Yuen Yat
Independent Non-executive Directors:	Mr. ZHOU Xiaohe ( <i>Committee Chairman</i> ) Prof. WOO Chia-Wei Mr. YU Qihao

The Remuneration Committee was set up to assist the Board to establish a coherent remuneration policy and to review and approve the remuneration packages of the directors and senior management including the terms of salary and bonus schemes and other long term incentive schemes.

During the reporting year, one meeting was held to discuss the remuneration policies and approve the remuneration packages of individual director and senior management of the Company.

### Audit Committee

The Audit Committee was established on 27th December 1998, with written terms of reference updated and adopted on 26th August 2016. All members of the Audit Committee are non-executive directors and its members include:

Independent Non-executive Directors:	Mr. YU Qihao ( <i>Committee Chairman</i> ) Prof. WOO Chia-Wei Mr. LIU Ji Mr. ZHOU Xiaohu
Non-executive Director:	Mr. KWOK Lam Kwong, Larry, <i>S.B.S., J.P.</i>

Each member of the Audit Committee has broad commercial experience and there is a suitable mix of expertise in business, accounting and financial management on the Audit Committee. The composition and members of the Audit Committee complies with the requirements under Rule 3.21 of the Listing Rules.

The Audit Committee was set up to ensure proper financial reporting, risk management and internal control systems are in place and follow. The Audit Committee meets regularly to review the reporting of financial and other information to shareholders, and to oversee the effectiveness and objectivity of the systems of risk management and internal controls, and the audit process.

During the reporting year, there were four meetings held. The Audit Committee has reviewed the annual and interim consolidated financial statements, including the accounting principles and practices adopted by the Group, which was of the opinion that such reports were prepared in accordance with the applicable accounting standard and requirements. The Audit Committee met with the Company's external auditor for three times in 2019 to liaise the Group's financial reporting and material financial matters.

## ACCOUNTABILITY AND AUDIT

### Financial reporting

The Board acknowledges its responsibilities for preparing the financial statements of the Group and is responsible to ensure that the preparation of the financial statements of the Group is in accordance with the statutory requirements and applicable accounting standards. The Board believes that they have selected suitable accounting policies and applied them consistently, made judgments and estimates that are prudent and reasonable and ensured the financial statements of the Group are prepared on a "going concern" basis.

### Responsibility of external auditors

The responsibilities of the external auditors with respect to financial reporting and auditing are set out in the Independent Auditor's Report attached to this annual report.

### Remuneration of external auditor

Details of the remuneration of the Company's external auditor, PricewaterhouseCoopers, for the year ended 31st December 2019 is set out in Note 6 to the consolidated financial statements.

### DIVIDEND POLICY

The Company has adopted the dividend policy which aims to set out the principles and guidelines that the Company intends to apply in relation to the declaration, payment or distribution of its net profits as dividends to the shareholders of the Company. In recommending or declaring dividends, the Company shall maintain adequate cash reserves for meeting its working capital requirements and needs for future growth as well as its shareholder value in the long-run. The amount of dividends (if any) that may be declared and distributed to the shareholders of the Company is subject to the discretion of the Board, the constitution of the Company and all applicable laws and regulations and other factors. The Board shall also take into account various factors of the Group when considering the declaration and payment of dividends. The Board will review the dividend policy as appropriate from time to time.

### RISK MANAGEMENT AND INTERNAL CONTROLS

The Board acknowledges its responsibility for overseeing the Group's risk management and internal control system and reviewing their effectiveness. It formulates the Group's risk management strategies and defines the overall risk management and internal control management structure with clear lines of responsibility and limit of authority. Assisted by the Audit Committee, it is responsible to review and assess the risk management and internal control policy and process of the Group to ensure it is appropriate and effective on an ongoing basis.

Risk management and internal control system is designed to ensure that assets are safeguarded against improper use or disposal, relevant rules and regulations are adhered to and complied with, accounting records are maintained in accordance with relevant accounting standards and regulatory requirements, and significant risks which may impact the Group's performance are managed. The system is designed to manage rather than eliminate risks of failure in operational systems and fulfillment of business objectives, and can only provide reasonable, but not absolute assurance against material misstatement or loss.

The Group has established organized structure with defined levels of responsibility and reporting procedures on risk management system. A risk committee (the "Risk Committee") was set up in 2016, consists of executive directors of the Company and senior management from major operating units with formalized terms of reference adopted. The Risk Committee shall meet regularly to oversee the design, implementation, monitoring and evaluation of the risk management framework and shall report effectiveness of the system and assessment results to the Audit Committee at least annually.

Risk management process includes risk identification, risk evaluation, risk management measures and risk control and review. The senior management of operating units, as owner of individual risk and is accountable for identifying and assessing key risks. The senior management of operating units should establish risk mitigation strategies, carry out risk management activities and monitor the day-to-day operations to ensure mitigations are implemented with good practices and guidelines established by the Group. The results of risk assessment are recorded and reported to the Risk Committee from time to time.

During the reporting year, senior management of operating units analyzed the control environment, identified significant risks during operation and evaluated the related mitigation measures. They have reported the risk assessment results to the Risk Committee who has discussed with relevant senior management and performed high level assessment on the effectiveness of the Group's risk management system. The Audit Committee has reviewed the overall risk assessment report presented by the Risk Committee to ensure the risk management system is effective.

During the reporting year, the Group has also engaged an external advisor to conduct reviews on the effectiveness of internal control system of the Group to enhance the overall management. The Audit Committee has reviewed the report and considered the internal control system of the Group to be effective and adequately resourced and that the Group has adopted necessary control mechanisms in respect of its operational, financial, statutory compliance and risk management functions.

## MEETINGS AND ATTENDANCE

The Board/Board Committees meet regularly throughout the year. Notice of at least 14 days have been given to all directors for all regular Board/Board Committee meetings and the directors can include matters for discussion in the agenda if necessary. Agenda and accompanying meeting papers in respect of regular Board/Board Committee meetings are sent out to all directors within reasonable time before the relevant meeting. Draft minutes of Board/Board Committee meetings are circulated to directors for comment within a reasonable time prior to confirmation. Minutes of Board/Board Committee meetings are kept by the Company Secretary. All directors have access to relevant and timely information, and they can ask for further information or retain independent professional advisors if necessary. They also have access to the advice and services of the Company Secretary, who is responsible for providing Directors with meeting papers and related materials and ensuring that Board procedures are followed. Where queries are raised by directors, steps would be taken to respond as promptly and fully as possible. All Directors have the opportunity to include matters in the agenda for Board/Board Committees meetings.

During the reporting year, the individual attendance of each director at the Board meetings, the Board Committee meetings and the Company's annual general meeting (the "AGM") and extraordinary general meeting (the "EGM") is set out below:

Name of director	Board meeting	Nomination Committee meeting	Remuneration Committee meeting	Audit Committee meeting	AGM/EGM
No. of meetings held during 2019	4	1	1	4	2
Mr. LO Yuen Yat	3	1	1	n/a	2
Mr. XIN Shulin	3	n/a	n/a	n/a	2
Mr. YEUNG Wai Kin	4	n/a	n/a	n/a	2
Mr. KWOK Lam Kwong, Larry, <i>S.B.S., J.P.</i>	4	n/a	n/a	4	2
Prof. WOO Chia-Wei	4	1	1	4	2
Mr. LIU Ji	2	n/a	n/a	2	2
Mr. YU Qihao	4	1	1	4	2
Mr. ZHOU Xiaohu	4	1	1	4	2

Mr. YEUNG Wai Kin attended all the Board/Board Committee meetings in 2019 in the capacity of Company Secretary of the Company.

## COMPANY SECRETARY

Mr. YEUNG Wai Kin has been appointed as Company Secretary of the Company since 1995. He plays an important role in supporting the Board/Board Committees by facilitating efficient flow of information within the Board/Board Committees, ensuring board procedures are followed, and advising the Board on corporate governance matters. Following specific enquiry by the Company, he has complied with the requirements as stipulated in Rule 3.29 of the Listing Rules.

## COMMUNICATION WITH SHAREHOLDERS AND SHAREHOLDERS' RIGHT

### Corporate communication policy

The Company recognises the importance of effective and proper communications with its shareholders and investors. A policy setting out the principles of the Company in relation to the shareholders' communications, with the objectives of ensuring a fair, transparent and timely communication with shareholders has been established and published on the website of the Company.

### Information disclosure

With respect to the procedures and internal controls for the handling and dissemination of price-sensitive information, the Company is aware of its obligations under Part XIVA of the Securities and Futures Ordinance and the Listing Rules and has established the inside information/price sensitive information disclosure policy with close regard to the "Guidelines on Disclosure of Inside Information" issued by the Securities and Futures Commission.

### General meetings with shareholders

The Company's annual general meeting provides a useful platform for direct communication between the Board and shareholders of the Company. The Company ensures that shareholders' views are communicated to the Board. The chairman of the annual general meeting proposes separate resolutions for each issue to be considered. The AGM was held on 31st May 2019. The Company's external auditor and all directors (including the Chairman of the Company and the chairmen (or other nominated committee member) of the audit, remuneration and nomination committees) have attended the AGM to answer questions from shareholders.

### Shareholders' right

#### (A) *Convening of extraordinary general meeting on requisition by shareholders*

Shareholder(s) holding not less than five percent of the total voting rights of all the members having a right to vote at general meetings of the Company, may require the directors of the Company to convene an extraordinary general meeting ("EGM"). The requisition, either in hard copy form or in electronic form, must state the general nature of the business to be dealt with at the meeting and must be signed by the shareholder(s) concerned and deposited at the registered office of the Company or email to enquiry@firstshanghai.com.hk for the attention of the Company Secretary. The requisition may include the text of a resolution that may properly be moved and is intended to be moved at the EGM. The requisition may consist of several documents in like form, each signed by one or more of the shareholders concerned.

If the directors of the Company do not within 21 days from the date of receipt of the requisition proceed duly to convene an EGM for a day not more than 28 days after the date on which the notice convening the EGM is given, the shareholder(s) concerned, or any of them representing more than one-half of the total voting rights of all of them, may themselves convene an EGM, provided that the EGM so convened shall not be held after the expiration of three months from the said date. The EGM convened by shareholders shall be convened in the same manner, as nearly as possible, as that in which general meetings are to be convened by the directors of the Company.

Any reasonable expenses incurred by the shareholder(s) concerned by reason of the failure of the directors duly to convene an EGM must be reimbursed by the Company.

**(B) Procedures for directing shareholders' enquiries to the Board**

Shareholders may at any time send their enquiries and concerns to the Board in writing through the Company Secretary. The Company Secretary shall forward the shareholders' enquiries and concerns to the Board and/or relevant board committees of the Company, where appropriate, to answer the shareholders' questions.

**(C) Procedures for putting forward proposals at general meetings by shareholders**

Shareholders may request the Company to include a resolution at an annual general meeting of the Company ("AGM"). The requirements and procedures are set out below:

- (i) Any number of shareholders representing not less than 2.5 percent of the total voting rights of all shareholders having at the date of the requisition a right to vote at an AGM to which the requisition relates, or not less than 50 shareholders holding shares in the Company, may submit a requisition in hard copy form or electronic form to put forward a resolution which may properly be moved and is intended to be moved at an AGM.
- (ii) The Company shall not be bound by the Hong Kong Companies Ordinance to give notice of the proposed resolution or to circulate a statement of not more than 1,000 words with respect to the matter referred to in the proposed resolution to shareholders of the Company entitled to receive notice of an AGM unless (a) a copy of the requisition signed by the shareholders concerned (or two or more copies which between them contain the signatures of all the shareholders concerned) is deposited at the registered office of the Company or email to [enquiry@firstshanghai.com.hk](mailto:enquiry@firstshanghai.com.hk) for the attention of the Company Secretary not less than six weeks before an AGM in the case of a requisition requiring notice of a resolution and not less than one week before an AGM in the case of any other requisition; and (b) the concerned shareholders have deposited with the requisition a sum reasonably sufficient to meet the Company's expenses in giving effect thereto.
- (iii) However if, after a copy of a requisition requiring notice of a resolution has been deposited at the registered office of the Company, an AGM is called for a date six weeks or less after the copy has been deposited, the copy though not deposited within the time required as referred to in the above shall be deemed to have been properly deposited.

**(D) Procedures for proposing a person for election as a director**

As regards the procedure for proposing a person for election as a director, please refer to the procedures made available under the "Corporate Governance" section, "Shareholders Information" sub-section ("Procedures for Shareholders to Propose a Person for Election as Director") of the website of the Company.

## CONSTITUTIONAL DOCUMENTS

During the reporting year, there were no changes in any of the Company's constitutional documents. The latest version of the Articles of Association of the Company is available on the websites of the Company and the Stock Exchange.

# Independent Auditor's Report



羅兵咸永道

**TO THE MEMBERS OF FIRST SHANGHAI INVESTMENTS LIMITED**

*(incorporated in Hong Kong with limited liability)*

## OPINION

### What we have audited

The consolidated financial statements of First Shanghai Investments Limited (the "Company") and its subsidiaries (the "Group") set out on pages 33 to 110, which comprise:

- the consolidated balance sheet as at 31st December 2019;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

### Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31st December 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

## BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAAs") 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 believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

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*PricewaterhouseCoopers, 22/F Prince's Building, Central, Hong Kong  
T: +852 2289 8888, F: +852 2810 9888, [www.pwchk.com](http://www.pwchk.com)*

## KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, 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 identified in our audit are summarised as follows:

- Impairment of non-financial assets within the Medical and Healthcare segment
- Impairment of margin loans receivable
- Impairment of properties under development and held for sale

### Key Audit Matter

Impairment of non-financial assets within the Medical and Healthcare segment

Refer to Notes 3(c), 4 and 15(b) to the consolidated financial statements.

As at 31 December 2019, segment assets of the Group's Medical and Healthcare segment with net carrying amount of HK\$392.7 million mainly comprised of right-of-use assets and property, plant and equipment.

Management performed assessment at the end of each reporting period to consider whether there is any indication that these non-financial assets may be impaired. The recoverable amounts of these non-financial assets are assessed by value-in-use calculations which are based on future discounted cash flows on a cash generating unit ("CGU") basis.

Significant judgments and estimates are required to determine the recoverable amounts of these non-financial assets, based on value-in-use calculations of the estimated future cash flows of the relevant CGUs, using appropriate key assumptions including length of the projection period, revenue growth rates and discount rates.

### How our audit addressed the Key Audit Matter

Our procedures performed to address this key audit matter included:

We understood, evaluated and validated management's key controls over the impairment assessment of non-financial assets.

We assessed the appropriateness of the methodologies used for the impairment assessment with the involvement of our internal valuation experts.

We compared the figures included in prior year forecasts with current year actual results, on a sample basis, to evaluate the historical estimation accuracy.

We also compared the cash flow forecasts to financial budgets approved by management and assessed the reasonableness of the forecasts and budgets by comparing them against business plans and historical information, where relevant.

## Independent Auditor's Report

### Key Audit Matter

Based on the results of management's impairment assessment, impairment charges of HK\$3.4 million have been made by management on certain right-of-use assets within the Medical and Healthcare segment for the year ended 31st December 2019.

We focused on this area due to the size of the balances and the significant judgment and estimates involved in determining the recoverable amounts of these non-financial assets.

### How our audit addressed the Key Audit Matter

We challenged management's assumptions used in the forecasts by comparing the length of projection period against the relevant supporting evidence including existing lease contracts, business plans and financial budgets; evaluating the revenue growth rates by considering the business plans, historical trends and current market conditions, market rental rates, our industry knowledge, and economic growth forecasts, where relevant; and assessing the discount rates by benchmarking against the discount rates for comparable companies with the involvement of our internal valuation experts.

We evaluated the sensitivity analyses performed by management around the key assumptions applied to the value-in-use calculations in order to assess the potential impact of a range of possible outcomes.

Based on the procedures performed, we found management's judgments and estimates used in the impairment assessment of non-financial assets within the Medical and Healthcare segment to be supportable by available evidence.

**Key Audit Matter**

Impairment of margin loans receivable

Refer to Notes 3(b) and 21 to the consolidated financial statements.

As at 31st December 2019, margin loans receivable amounted to HK\$1,165 million. These margin loans to third parties are bearing interest at commercial rates, secured by the underlying pledged listed securities and are repayable on demand.

As at 31st December 2019, a loss allowance of HK\$5.4 million was made for the margin loans receivable based on management's estimate on the expected credit losses in accordance with Hong Kong Financial Reporting Standard 9 "Financial Instruments".

Expected credit losses are determined by management based on their assessment on whether there is significant increase in credit risk for margin loans receivable since their initial recognition. Significant judgment is required when determining the impairment model, using appropriate key parameters when measuring the risk of default, and identifying any significant deterioration in credit quality, e.g., the degree of fair value changes on the underlying pledged listed securities; and other assumptions used in the expected credit loss model including economic indicators for forward looking information and the application of economic scenarios and probability weightings.

We focused on this area due to the size of the balances and the judgment exercised by management in determining the expected credit loss allowance for margin loans receivable as at 31st December 2019.

**How our audit addressed the Key Audit Matter**

Our procedures performed to address this key audit matter included:

- (i) We understood, evaluated and validated the internal controls over the Group's process on margin loan monitoring and collection.
- (ii) We understood and evaluated the modeling methodologies used by management for measuring expected credit loss; assessed key parameters and assumptions made by management with reference to the relevant historical credit loss data of the Group and observable external economic data.
- (iii) For historical information, we discussed with management to understand their process of assessing risk of default and identifying significant deterioration in credit risk. We corroborated management's explanation with supporting evidence, including comparing, on a sample basis, the fair value of the collaterals against the margin loans at year end date. We also assessed, on a sample basis, the fair value of the collaterals at year end date against the relevant market data.
- (iv) For forward looking information, we reviewed the appropriateness of economic indicators selected by management; evaluated the economic scenarios and the underlying probability weightings applied by management; tested the resulting calculation of the economic indicators determined thereby; and assessed the financial impact on management's sensitivity analysis on the economic indicators.
- (v) We also assessed the appropriateness of management's sensitivity analysis over key modeling assumptions to determine the potential impact of a range of possible outcomes and assessed the financial impact of such possible outcomes.

Based on the procedures performed, we found management's judgments and estimates made in respect of the expected credit loss allowance for the margin loans receivable to be supportable by available evidence.

## Independent Auditor's Report

### Key Audit Matter

Impairment of properties under development and held for sale

Refer to Notes 3(a) and 23 to the consolidated financial statements.

As at 31st December 2019, the Group's properties under development and properties held for sale amounted to HK\$185 million and HK\$303 million respectively.

The carrying amounts of properties under development and properties held for sale were stated at the lower of cost and net realisable value. The net realisable value of these assets were assessed according to their recoverable amounts, taking into account of the costs to completion for properties under development, with reference to the latest market prices less selling expenses based on the prevailing market conditions and past experience.

Based on management's estimates, no provision has been made for the Group's properties under development and held for sale for the year ended 31st December 2019.

We focused on this area due to the significant judgments and estimates involved in determining the recoverable amounts.

### How our audit addressed the Key Audit Matter

Our procedures performed to address this key audit matter included:

- (i) We understood, evaluated and validated the internal control over the Group's process in estimating the costs to completion, selling prices and selling expenses to determine the net realisable value based on prevailing market conditions;
- (ii) We assessed management's estimates of the anticipated costs to completion with reference to approved budgets and construction contracts with contractors; and reviewed correspondence with contractors for any material cost adjustments and variation orders relevant to the year end date; and
- (iii) We evaluated management's estimated costs to completion, selling prices and selling expenses in determining the net realisable value based on prevailing market conditions by researching the selling prices of comparable properties from the public available resources; comparing the estimated selling prices to the most recent selling prices or prevailing market prices of those comparable properties in the same location or in close proximity.

Based on the procedures performed, we found management's judgments and estimates on the net realisable value of properties under development and properties held for sale to be supportable by available evidence.

## OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of 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 DIRECTORS AND AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The audit committee is responsible for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with Section 405 of the Hong Kong Companies Ordinance and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs 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 HKSAAs, we exercise professional judgment 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.

## Independent Auditor's Report

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our 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 Mak Tze Leung, William.

**PricewaterhouseCoopers**  
*Certified Public Accountants*

Hong Kong, 27th March 2020

# Consolidated Income Statement

For the year ended 31st December 2019

	Note	2019 HK\$'000	2018 HK\$'000
Revenue	4	533,529	473,726
Cost of sales		(217,569)	(169,106)
Gross profit		315,960	304,620
Other gains – net	5	59,977	33,726
Selling, general and administrative expenses		(341,314)	(326,582)
Operating profit	6	34,623	11,764
Finance income	7	42,461	50,327
Finance costs	7	(31,612)	(21,919)
Finance income – net	7	10,849	28,408
Share of results of a joint venture	19	5,553	9,965
Loss on disposal of a joint venture	19	(2,137)	–
Profit before taxation		48,888	50,137
Taxation	8(a)	(33,303)	(13,381)
Profit for the year		15,585	36,756
<b>Attributable to:</b>			
Shareholders of the Company		10,618	33,403
Non-controlling interests		4,967	3,353
		15,585	36,756
<b>Earnings per share for profit attributable to shareholders of the Company during the year</b>			
– Basic	9	HK0.75 cents	HK2.35 cents
– Diluted	9	HK0.75 cents	HK2.35 cents

The notes on pages 39 to 110 are an integral part of these consolidated financial statements.

# Consolidated Statement of Comprehensive Income

For the year ended 31st December 2019

	2019 HK\$'000	2018 HK\$'000
Profit for the year	15,585	36,756
Other comprehensive loss		
<i>Items that have been reclassified or may be subsequently reclassified to profit or loss</i>		
– Exchange reserve realised upon disposal of a joint venture	(3,250)	–
– Exchange reserve realised upon disposal of a subsidiary	–	2
– Currency translation differences	(32,532)	(62,735)
<i>Items that will not be reclassified to profit or loss</i>		
– Fair value loss on financial assets at fair value through other comprehensive income	(30,025)	(57,472)
Other comprehensive loss for the year, net of tax	(65,807)	(120,205)
Total comprehensive loss for the year	(50,222)	(83,449)
<b>Attributable to:</b>		
Shareholders of the Company	(53,474)	(83,253)
Non-controlling interests	3,252	(196)
	(50,222)	(83,449)

The notes on pages 39 to 110 are an integral part of these consolidated financial statements.

# Consolidated Balance Sheet

As at 31st December 2019

	Note	2019 HK\$'000	2018 HK\$'000
<b>Non-current assets</b>			
Intangible assets	14	5,126	5,126
Property, plant and equipment	15(a)	679,014	683,182
Right-of-use assets	15(b)	261,935	–
Investment properties	16	661,532	598,135
Leasehold land and land use rights	17	41,043	43,025
Investment in a joint venture	19	–	216,723
Deferred tax assets	33	50,949	31,868
Financial assets at fair value through other comprehensive income	20	97,133	127,158
Finance lease receivables	22	12,122	–
Other non-current prepayments and deposits	25	17,038	18,907
<b>Total non-current assets</b>		<b>1,825,892</b>	1,724,124
<b>Current assets</b>			
Inventories	23	491,571	561,691
Loans and advances	21	1,164,813	745,482
Trade receivables	24	190,550	224,706
Other receivables, prepayments and deposits	25	276,461	59,735
Finance lease receivables	22	1,821	–
Tax recoverable	8(b)	1,315	11,132
Financial assets at fair value through profit or loss	26	17	22
Deposits with banks	27	11,163	59,345
Client trust bank balances	28	1,827,882	3,137,482
Cash and bank balances	28	216,270	339,309
<b>Total current assets</b>		<b>4,181,863</b>	5,138,904
<b>Current liabilities</b>			
Trade and other payables	29	2,470,250	3,698,461
Tax payable	8(b)	42,382	29,638
Lease liabilities	15(b)	44,041	–
Borrowings	30	228,021	112,958
<b>Total current liabilities</b>		<b>2,784,694</b>	3,841,057
<b>Net current assets</b>		<b>1,397,169</b>	1,297,847
<b>Total assets less current liabilities</b>		<b>3,223,061</b>	3,021,971

## Consolidated Balance Sheet

As at 31st December 2019

	Note	2019 HK\$'000	2018 HK\$'000
<b>Non-current liabilities</b>			
Deferred tax liabilities	33	93,915	74,893
Lease liabilities	15(b)	261,782	–
Borrowings	30	149,590	156,357
Other non-current liabilities		6,507	15,563
<b>Total non-current liabilities</b>		<b>511,794</b>	246,813
<b>Net assets</b>		<b>2,711,267</b>	2,775,158
<b>Equity</b>			
Share capital	31	1,162,940	1,162,940
Reserves	32	1,471,436	1,537,824
Capital and reserves attributable to the Company's shareholders		2,634,376	2,700,764
Non-controlling interests		76,891	74,394
<b>Total equity</b>		<b>2,711,267</b>	2,775,158

On behalf of the Board

**LO Yuen Yat**  
Director

**YEUNG Wai Kin**  
Director

The notes on pages 39 to 110 are an integral part of these consolidated financial statements.

# Consolidated Statement of Cash Flows

For the year ended 31st December 2019

	Note	2019 HK\$'000	2018 HK\$'000
<b>Cash flows from operating activities</b>			
Net cash (outflow)/inflow from operating activities	34	(203,223)	617,193
Hong Kong profits tax paid		–	(13,611)
Overseas taxation paid		(5,815)	(2,359)
<b>Net cash (used in)/generated from operating activities</b>		<b>(209,038)</b>	601,223
<b>Cash flows from investing activities</b>			
Interest received		44,696	46,202
Purchase of property, plant and equipment		(46,385)	(150,335)
Deposit paid for property, plant and equipment		(33)	(2,575)
Proceeds from disposal of investment properties		2,808	10,715
Proceeds from disposal of property, plant and equipment		12	721
Proceeds from disposal of a subsidiary		–	11,021
Acquisition of a subsidiary from non-controlling interests		(1,911)	–
Acquisition of a subsidiary		–	(2,966)
Dividends received from a joint venture		6,582	6,917
Decrease/(increase) in deposits with banks		47,346	(37,372)
Receipt of loan repayment		–	4,638
<b>Net cash generated from/(used in) investing activities</b>		<b>53,115</b>	(113,034)
<b>Cash flows from financing activities</b>			
Interest paid		(31,608)	(23,061)
Proceeds from borrowings		268,719	70,853
Repayments of borrowings		(157,443)	(445,476)
Payment for lease liabilities		(45,414)	–
<b>Net cash generated from/(used in) financing activities</b>		<b>34,254</b>	(397,684)
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(121,669)</b>	90,505
Cash and cash equivalents at 1st January		332,151	246,375
Exchange differences		(2,632)	(4,729)
<b>Cash and cash equivalents at 31st December</b>	28	<b>207,850</b>	332,151

The notes on pages 39 to 110 are an integral part of these consolidated financial statements.

# Consolidated Statement of Changes in Equity

For the year ended 31st December 2019

	Attributable to shareholders of the Company						Non-controlling interests	Total
	Share capital HK\$'000	Capital reserve HK\$'000	Assets revaluation reserve HK\$'000	Financial assets at fair value through other comprehensive income reserve	Exchange fluctuation reserve HK\$'000	Retained earnings HK\$'000	HK\$'000	HK\$'000
				HK\$'000				
<b>Balance at 31st December 2018 as originally presented</b>	<b>1,162,940</b>	<b>38,529</b>	<b>12,334</b>	<b>66,752</b>	<b>20,352</b>	<b>1,399,857</b>	<b>74,394</b>	<b>2,775,158</b>
Change in accounting policies (Note 2.1(b)(i))	-	-	-	-	-	(11,754)	(4)	(11,758)
<b>Total equity at 1st January 2019</b>	<b>1,162,940</b>	<b>38,529</b>	<b>12,334</b>	<b>66,752</b>	<b>20,352</b>	<b>1,388,103</b>	<b>74,390</b>	<b>2,763,400</b>
Profit for the year	-	-	-	-	-	10,618	4,967	15,585
Other comprehensive loss	-	-	-	(30,025)	(34,067)	-	(1,715)	(65,807)
<b>Total comprehensive loss</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(30,025)</b>	<b>(34,067)</b>	<b>10,618</b>	<b>3,252</b>	<b>(50,222)</b>
Transaction with non-controlling interests	-	-	-	-	-	(1,160)	(751)	(1,911)
Transfer from retained earnings	-	226	-	-	-	(226)	-	-
	-	226	-	-	-	(1,386)	(751)	(1,911)
<b>At 31st December 2019</b>	<b>1,162,940</b>	<b>38,755</b>	<b>12,334</b>	<b>36,727</b>	<b>(13,715)</b>	<b>1,397,335</b>	<b>76,891</b>	<b>2,711,267</b>

	Attributable to shareholders of the Company						Non-controlling interests	Total
	Share capital HK\$'000	Capital reserve HK\$'000	Assets revaluation reserve HK\$'000	Financial assets at fair value through other comprehensive income reserve	Exchange fluctuation reserve HK\$'000	Retained earnings HK\$'000	HK\$'000	HK\$'000
				HK\$'000				
<b>At 1st January 2018</b>	<b>1,162,940</b>	<b>38,258</b>	<b>12,334</b>	<b>124,224</b>	<b>79,536</b>	<b>1,366,725</b>	<b>74,590</b>	<b>2,858,607</b>
Profit for the year	-	-	-	-	-	33,403	3,353	36,756
Other comprehensive loss	-	-	-	(57,472)	(59,184)	-	(3,549)	(120,205)
<b>Total comprehensive loss</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(57,472)</b>	<b>(59,184)</b>	<b>33,403</b>	<b>(196)</b>	<b>(83,449)</b>
Transfer from retained earnings	-	271	-	-	-	(271)	-	-
	-	271	-	(57,472)	(59,184)	33,132	(196)	(83,449)
<b>At 31st December 2018</b>	<b>1,162,940</b>	<b>38,529</b>	<b>12,334</b>	<b>66,752</b>	<b>20,352</b>	<b>1,399,857</b>	<b>74,394</b>	<b>2,775,158</b>

The notes on pages 39 to 110 are an integral part of these consolidated financial statements.

# Notes to the Consolidated Financial Statements

## 1. GENERAL INFORMATION

First Shanghai Investments Limited (the “Company”) and its subsidiaries (together, the “Group”) are principally engaged in securities investment, corporate finance, stockbroking, property development, property investment, hotel operations, medical and healthcare services, direct investment, investment holding and management.

The Company is a limited liability company incorporated in Hong Kong. The address of its registered office is Room 1903, Wing On House, 71 Des Voeux Road Central, Hong Kong.

The Company is listed on The Stock Exchange of Hong Kong Limited.

These consolidated financial statements are presented in Hong Kong dollars, unless otherwise stated.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### 2.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards (“HKFRS”) and requirements of the Hong Kong Companies Ordinance (Cap. 622). The consolidated financial statements have been prepared under the historical cost convention, except that a leasehold land and building in Hong Kong is stated at revalued amount less subsequent accumulated depreciation and accumulated impairment losses (if any), and as modified by the revaluation of investment properties, financial assets at fair value through other comprehensive income (“FVOCI”) and financial assets at fair value through profit or loss (“FVPL”), which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group’s accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 3.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.1 Basis of preparation *(continued)*

#### *Changes in accounting policies and disclosures*

##### *(a) New and amended standards adopted by the Group*

The Group has applied the following standards and amendments for the first time for the annual reporting period commencing 1st January 2019:

- HKFRS 16 Leases;
- Prepayment Features with Negative Compensation – Amendments to HKFRS 9;
- Long-term Interests in Associates and Joint Ventures – Amendments to HKAS 28;
- Annual Improvements to HKFRS Standards 2015–2017 Cycle;
- Plan Amendment, Curtailment or Settlement–Amendments to HKAS 19; and
- Interpretation 23 Uncertainty over Income Tax Treatments.

The Group had to change its accounting policies as a result of adopting HKFRS 16. The Group elected to adopt the new rules retrospectively but recognised the cumulative effect of initially applying the new standard on 1st January 2019. This is disclosed in Note 2.1(b). Other amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

##### *(b) Impact of changes in accounting policies on the consolidated financial statements*

#### **(i) Adoption of HKFRS 16**

From 1st January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable
- Variable lease payment that are based on an index or a rate
- Amounts expected to be payable by the lessee under residual value guarantees
- The exercise price of a purchase option if the lessee is reasonably certain to exercise that option
- Payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.1 Basis of preparation *(continued)*

#### *Changes in accounting policies and disclosures (continued)*

#### *(b) Impact of changes in accounting policies on the consolidated financial statements (continued)*

##### **(i) Adoption of HKFRS 16 *(continued)***

Right-of-use assets are measured at cost comprising the following:

- The amount of the initial measurement of lease liability
- Any lease payments made at or before the commencement dates less any lease incentives received
- Any initial direct costs

Payments associated with short-term leases and leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

##### **(ii) Adjustment recognised on adoption of HKFRS 16**

The Group has adopted HKFRS 16 retrospectively from 1st January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening consolidated balance sheet on 1st January 2019.

On adoption of HKFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as “operating leases” under the principles of HKAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate as 1st January 2019. The weighted average lessee’s incremental borrowing rate applied to the lease liabilities on 1st January 2019 was 3.6%.

The difference between the operating lease commitments disclosed as at 31st December 2018 and the lease liabilities recognised in the consolidated balance sheet upon the date of initial application mainly arose from the adjustments as a result of exercising extension options for certain leases, discounting the future lease payments to the present value upon adoption of HKFRS 16 and applying the practical expedient to account for those lease terms ends within 12 months of the date of initial application in the same way as short-term leases.

Lease liabilities recognised due to adoption of HKFRS 16 as at 1st January 2019 is as follows:

	HK\$'000
Current lease liabilities	43,696
Non-current lease liabilities	299,347
	343,043

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.1 Basis of preparation *(continued)*

#### *Changes in accounting policies and disclosures (continued)*

#### *(b) Impact of changes in accounting policies on the consolidated financial statements (continued)*

##### **(ii) Adjustment recognised on adoption of HKFRS 16 *(continued)***

The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied. There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

The net impact on retained earnings on 1st January 2019 was a decrease of HK\$11,754,000.

#### *Practical expedients applied*

In applying HKFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- The use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- Accounting for operating leases with a remaining lease term of less than 12 months as at 1st January 2019 as short-term leases
- The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date, the Group relied on its assessment made applying HKAS 17 and HK(IFRIC)-Int4 *Determining whether an Arrangement contains a Lease*.

#### *(c) New standards and amendments to existing standards that not yet effective and have not been adopted the Group*

Certain new standards and amendments to existing standards have been issued but are not effective for the financial year beginning 1st January 2019 and have not been early adopted by the Group. These standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

### 2.2 Subsidiaries

#### 2.2.1 Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, 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.

Subsidiaries are consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.2 Subsidiaries *(continued)*

#### 2.2.1 Consolidation *(continued)*

##### *(a) Business combinations*

The Group applies the acquisition method to account for business combinations. The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred;
- liabilities incurred to the former owners of the acquired business;
- equity interests issued by the Group;
- fair value of any asset or liability resulting from a contingent consideration arrangement; and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. Acquisition-related costs are expensed as incurred.

The Group recognises any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognised in profit or loss.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognised directly in the consolidated income statement as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the Group's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent lenders under comparable terms and conditions. Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.2 Subsidiaries *(continued)*

#### 2.2.1 Consolidation *(continued)*

##### *(a) Business combinations (continued)*

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses (Note 2.10). Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

##### *(b) Changes in ownership interests in subsidiaries without change of control*

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of the Group.

##### *(c) Disposal of subsidiaries*

When the Group ceases to have control, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associated company, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs.

### 2.3 Joint arrangements

Under HKFRS 11, investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor.

#### **Joint venture**

Investment in a joint venture is accounted for using the equity method of accounting and are initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition.

The Group's share of post-acquisition profits or losses is recognised in the consolidated income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in a joint venture equals or exceeds its interest in the joint venture, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the joint venture.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.3 Joint arrangements *(continued)*

#### *Joint venture (continued)*

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint venture. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of joint venture have been changed where necessary to ensure consistency with the policies adopted by the Group.

### 2.4 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the board of directors (the "Board") of the Company that makes strategic decisions.

### 2.5 Foreign currency translation

#### *(a) Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollars ("HK\$"), which is the Company's functional and the Group's presentation currency.

#### *(b) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statement.

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in the consolidated income statement as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as FVOCI, are included in other comprehensive income.

#### *(c) Group companies*

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- (ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
- (iii) all resulting exchange differences are recognised in other comprehensive income.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.5 Foreign currency translation *(continued)*

#### *(c) Group companies (continued)*

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in other comprehensive income.

#### *(d) Disposal of foreign operation and partial disposal*

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, or a disposal involving loss of joint control over a joint venture that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (that is, reductions in the Group's ownership interest in joint ventures that do not result in the Group losing significant influence or joint control) the proportionate share of the accumulated exchange difference is reclassified to profit or loss.

### 2.6 Intangible assets

#### *(a) Goodwill*

Goodwill is measured as described in Note 2.2.1(a). Goodwill on acquisition of subsidiaries is included in "intangible assets". Goodwill on acquisitions of joint ventures is included in "investment in a joint venture". Separately recognised goodwill is not amortised but it is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

#### *(b) Trading rights*

The trading rights at the Hong Kong Futures Exchange Limited ("trading rights") are recognised as intangible assets in the consolidated balance sheet. They have indefinite useful lives and are tested annually for impairment and carried at cost less accumulated impairment losses.

### 2.7 Property, plant and equipment

#### *(a) Land and buildings in Hong Kong*

The Group carries its leasehold land classified as finance lease at cost. Buildings in Hong Kong are carried at cost or at revalued amounts and revaluation surpluses or deficits were dealt with in the assets revaluation reserve. Effective from annual period ended after 30th September 1995, no further revaluations have been carried out. The Group places reliance on paragraph 80AA of HKAS 16, "Property, plant and equipment", issued by the HKICPA which provides exemption from the need to make regular revaluations for such assets.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.7 Property, plant and equipment *(continued)*

#### **(b) Construction-in-progress**

Construction-in-progress comprises other property, plant and equipment under installation, and is stated at cost which includes development and construction expenditure incurred and other direct costs attributable to the development less any impairment losses. No depreciation is provided on construction-in-progress until such time as the relevant assets are completed and put into use.

#### **(c) Other property, plant and equipment**

Other property, plant and equipment comprises mainly freehold land, buildings outside Hong Kong, furniture, fixtures and equipment, medical and laboratory equipment, and vehicles, trucks and machinery are stated at historical cost less accumulated depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance costs are charged in the consolidated income statement during the financial year in which they are incurred.

#### **(d) Depreciation and amortisation**

Leasehold land classified as finance lease commences amortisation from the time when the land interest becomes available for its intended use. Freehold land is not depreciated. Amortisation on leasehold land classified as finance lease and depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost or revalued amounts to their residual values over their estimated useful lives, as follows:

Leasehold land classified as finance lease	Over the term of the leases
Buildings	Over the shorter of the term of the leases or 40 years
Furniture, fixtures and equipment	3 to 9 years
Plant and machinery	8 to 10 years
Motor vehicles	4 to 5 years
Trucks	8 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.10).

#### **(e) Gains and losses on disposals**

Gains and losses on disposals are determined by comparing proceeds with the carrying amount and are recognised within "other gains – net" in the consolidated income statement. When revalued assets are sold, the amounts included in assets revaluation reserve are transferred to retained earnings.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.8 Investment properties

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the companies in the Group, is classified as investment property. It also includes property that is being constructed or developed for future use as investment property.

Investment property comprises land held under operating leases and buildings held under finance leases.

Land held under operating leases are classified and accounted for as investment property when the rest of the definition of investment property is met. The operating lease is accounted for as if it was a finance lease.

Investment property is measured initially at its cost, including related transaction costs and borrowing costs. Borrowing costs incurred for the purpose of acquiring, constructing or producing a qualifying investment property are capitalised as part of its cost. Borrowing costs are capitalised while acquisition or construction is actively underway and cease once the asset is substantially complete, or suspended if the development of the asset is suspended.

After initial recognition, investment property is carried at fair value, representing open market value determined annually by external valuers. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. These valuations are performed in accordance with the RICS Valuation – Global Standards 2017, incorporating the International Valuation Standards 2017, issued by the Royal Institution of Chartered Surveyors and HKIS Valuation Standards 2017 published by the Hong Kong Institute of Surveyors.

The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions. The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property. Some of those outflows are recognised as a liability, including finance lease liabilities in respect of leasehold land classified as investment property; others, including contingent rent payments, are not recognised in the consolidated financial statements.

The fair value of investment property does not reflect future capital expenditure that will improve or enhance the property and does not reflect the related future benefits from this future expenditure other than those a rational market participant would take into account when determining the value of the property.

Changes in fair values are recognised in the consolidated income statement as part of “other gains – net”.

If an item of completed properties held for sale becomes an investment property as a result of change in its use, any difference between the carrying amount and the fair value of this property at the date of transfer is recognised in the consolidated income statement as part of “other gains – net”.

### 2.9 Leasehold land and land use rights

The up-front prepayments made for leasehold land and land use rights are accounted for as operating leases. They are amortised in the consolidated income statement on a straight-line basis over the periods of the lease, or when there is impairment, the impairment is recognised in the consolidated income statement. They are included in non-current assets.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.10 Impairment of investments in subsidiaries and non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows ("CGUs"). Assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiaries in the period the dividend is declared or if the carrying amount of the relevant investment in the Company's balance sheet exceeds its carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

### 2.11 Financial assets

#### (a) Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, amortised cost, and at fair value through other comprehensive income ("OCI"). The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows. Management determines the classification of its financial assets at initial recognition.

#### (b) Recognition and measurement

Regular way of purchases and sales of financial assets are recognised on trade-date – the date on which the Group commits to purchase or sell the asset. Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. FVPL are initially recognised at fair value, and transaction costs are expensed in the consolidated income statement. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other gains/(losses) together with foreign exchange gains and losses.

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss when the Group's right to receive payments is established.

Changes in fair value of FVPL, including net gains/(losses) on disposal, and dividend income from FVPL when the Group's right to receive payments is established are recognised in the consolidated income statement as investment income of the Group's financial services business.

Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.12 Properties under development and held for sale

Properties under development and held for sale are stated at the lower of cost and net realisable value. Development cost of properties comprises cost of land use rights, construction costs, borrowing costs capitalised and professional fees incurred during the construction period. Upon completion, the properties are transferred to properties held for sale.

Net realisable value takes into account the price ultimately expected to be realised, less applicable variable selling expenses and the anticipated costs to completion.

Properties under development and held for sale are classified as current assets unless the construction period of the relevant property development project is expected to complete beyond normal operating cycle.

### 2.13 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average basis method. The cost of finished goods and work in progress comprises raw materials, direct labour, shipping costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

### 2.14 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

### 2.15 Client trust bank balances

The Group has classified in the consolidated balance sheet the clients' deposits as client trust bank balances in the current assets section and recognised a corresponding trade payables to the respective clients under the current liabilities section.

### 2.16 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks with original maturities of three months or less, and bank overdrafts. In the consolidated balance sheet, bank overdrafts are shown within borrowings in current liabilities.

### 2.17 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.18 Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables also include clients' deposits received as detailed in Note 2.15 above. Trade and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

### 2.19 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period.

### 2.20 Current and deferred taxation

The tax expense for the year comprises current and deferred tax. Tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income and directly in equity, respectively.

#### (a) *Current income tax*

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries and joint venture operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

#### (b) *Deferred income tax*

##### *Inside basis differences*

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred income tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.20 Current and deferred taxation *(continued)*

#### **(b) Deferred income tax *(continued)***

##### *Outside basis differences*

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries and joint venture, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries and joint venture only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

#### **(c) Offsetting**

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

### 2.21 Employee benefits

#### **(a) Pension obligations**

The Group's contributions to the defined contribution retirement schemes are expensed as incurred and are reduced by contributions forfeited for those employees who leave the scheme prior to vesting fully in the contributions. The assets of the schemes are held separately from those of the Group in independently administered funds.

As stipulated by rules and regulations in the People's Republic of China ("PRC"), the Group contributes to state-sponsored retirement plans for its employees in the PRC. The Group contributes to the retirement plans certain percentage of the basic salaries of its employees, and has no further obligations for the actual payment of post-retirement benefits.

#### **(b) Employee leave entitlements**

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

#### **(c) Discretionary bonus**

Discretionary bonus is accrued in the year in which the associated services are rendered by employees of the Group.

Liabilities for discretionary bonus are expected to be settled within twelve months and are measured at the amounts expected to be paid when they are settled.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.21 Employee benefits *(continued)*

#### *(d) Employee share-based compensation*

The Group operates an equity-settled, employee share-based compensation plan, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted, (1) including any market performance conditions (for example, an entity's share price); (2) excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and (3) including the impact of any non-vesting conditions (for example, the requirement for employees to save or holding shares for a specified period of time). The total amount expensed is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the entity revises its estimates of the number of options that are expected to vest based on the non-market vesting and service conditions. It recognises the impact of the revision of original estimates, if any, in the consolidated income statement with a corresponding adjustment to equity.

When the options are exercised, the Company issues new shares. The proceeds received, net of any directly attributable transaction costs, are credited to share capital.

### 2.22 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

### 2.23 Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the consolidated financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.24 Revenue recognition

- (a) Revenue on financial services business from brokerage commission income is recognised on a trade date basis when the relevant transactions are executed. Handling fee, research fee and facilitating income arising from brokerage business are recognised when the related services are rendered. Underwriting fee income is recognised when the Group has fulfilled its obligations under the underwriting contract. Asset management fee, advisory fee income is recognised progressively over time once the performance obligation is fulfilled or at a point in time when the service is completed, according to the nature and the terms of the contracts.
- (b) Revenue on financial services business from securities investments include realised fair value gains or losses on listed and unlisted investments trading, on a trade date basis, and unrealised fair value gains or losses on changes in fair value at the end of the reporting period.
- (c) Revenue from sales of properties is recognised when the control of the asset is transferred to the customers. Depending on the terms of the contract and the laws that apply to the contract, control of the asset may transfer over time or at a point in time. If control of the asset transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the asset.
- (d) Revenue from hotel accommodation, medical services and other ancillary services are recognised on a basis that reflects the timing, nature and value when the relevant services are transferred to the customer.
- (e) Revenue from food and beverage sales and retail sale of goods are recognised when goods are delivered which is taken to be the point in time when the customer takes possession of and accepts the goods. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.
- (f) Rental income from operating leases is recognised over the period covered by the lease term on a straight-line basis.
- (g) Dividend income from investments is recognised when the rights to receive payment is established.
- (h) Interest income is recognised as it accrues using the effective interest method.

### 2.25 Finance costs

Finance costs incurred for the construction of any qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use, are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other finance costs are expensed as incurred.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.26 Leases

#### *(a) The Group as lessee*

Until 31st December 2018, leases in which a significant portion of the risks and rewards of ownership were not transferred to the Group as lessee were classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) were charged to profit or loss on a straight-line basis over the period of the lease.

From 1st January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases for real estate for which the Group is lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Asset and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payment that are based on an index or a rate, initially measured using the index or rate as at commencement date;
- Amounts expected to be payable by the Group under residual value guarantees;
- The exercise price of a purchase option if the Group is reasonably certain to exercise that option; and
- Payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use-asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- Where possible, uses recent third-party financing received by the individual lessee as starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- Uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for lease held by the Group, which does not have recent third party financing; and
- Makes adjustments specific to the lease, e.g. term, country, currency and security.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### 2.26 Leases *(continued)*

#### *(a) The Group as lessee (continued)*

The Group may expose to potential future increase in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- The amount of the initial measurement of lease liability;
- Any lease payments made at or before the commencement date less any lease incentives received; and
- Any initial direct costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use assets are depreciated over the underlying asset's useful life.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less. Low-value assets comprise IT equipment and small items of office furniture.

#### *(b) The Group as lessor*

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

When the Group is an intermediate lessor, it accounts for the head lease and the sub-lease as two separate contracts. The sub-lease is classified as a finance or operating lease by reference to the right-of-use asset arising from the head lease.

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

### 2.27 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and the Company's financial statements in the period in which the dividends are approved by the Company's directors or shareholders, as appropriate.

### 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions 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.

#### (a) Provision for impairment of properties under development and properties held for sale

The Group assesses the carrying amounts of properties under development and properties held for sale according to their net realisable value based on the realisability of these properties, taking into account estimated costs to completion based on past experience (properties under development only) and estimated net sales value based on prevailing market conditions.

Provision is made when events or changes in circumstances which indicate that the carrying amounts may not be realised. The assessment requires the use of judgement and estimates.

#### (b) Impairment of financial assets

The Group determined the loss allowance of the loans and advances, and trade receivables based on the expected credit loss of these receivables. The Group applies significant judgement in the determination of the impairment model and the use of parameters. The Group also uses significant judgement in its assessment on whether there is any significant increase in credit risk of these receivables. The Group makes assumptions on the economic indicators for forward looking information and the application of economic scenarios and probability weightings.

#### (c) Impairment of non-financial assets

The Group tests at least annually whether intangible assets have suffered any impairment. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts have been determined based on value-in-use calculations or fair value less costs to sell. These calculations require the use of judgements and estimates. Management judgement is required in the area of asset impairment particularly in assessing: (i) whether an event has occurred that may indicate that the related asset values may not be recoverable; (ii) whether the carrying value of an asset can be supported by the recoverable amount, being the higher of fair value less costs to sell and net present value of future cash flows which are estimated based upon the continued use of the asset in the business; and (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management in assessing impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test and as a result affect the Group's financial condition and results of operations. If there is a significant change in the projected performance and resulting future cash flow projections, such difference will impact the carrying value of the relevant asset and amount of impairment charge for the year in which such estimate has been changed.

### 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

**(d) Useful lives of property, plant and equipment**

The Group's management determines the estimated useful lives and related depreciation expenses for the Group's property, plant and equipment. Management will revise the depreciation expenses where useful lives are different from previously estimated, or it will write off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

**(e) Estimated fair value of investment properties**

The fair value of investment properties is determined by using valuation technique. Details of the judgement and assumptions have been disclosed in Note 16.

**(f) Fair value of financial instruments**

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of each reporting period.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period.

**(g) Income taxes**

The Group is subject to income taxes in various jurisdictions, mainly in Hong Kong and the PRC. Significant judgement is required in determining provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the year in which such determination is made.

Deferred income tax assets relating to certain deductible temporary differences and tax losses are recognised when management considers it is probable that future taxable profits will be available against which the temporary differences or tax losses can be utilised.

When the expectations are different from the original estimates, such differences will impact the recognition of deferred income tax assets and income tax charges in the period in which such estimates have been changed.

### 3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(continued)*

#### (h) Determination of lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

For the lease of land and buildings, the following factors are normally the most relevant:

- If there are significant penalties to terminate (or not extend), the Group is typically reasonably certain to extend (or not terminate).
- If any leasehold improvements are expected to have significant remaining value, the Group is typically reasonably certain to extend (or not terminate).
- Otherwise, the Group considers other factors including historical lease durations and the costs and business disruption required to replace the leased assets.

The lease term is reassessed if an option is actually exercised (or not exercised) or the Group becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the lessee. During the current financial year, no such significant event or change in circumstances occurred resulting in a reassessment of exercising option for extension or termination of lease terms.

### 4. SEGMENT INFORMATION

The chief operating decision-maker has been identified as the Board. Management determines the operating segments based on the Group's internal reports, which are then submitted to the Board for performance assessment and resources allocation.

The Board identifies the following reportable operating segments by business perspective:

- Financial services
- Property development
- Property investment and hotel
- Medical and healthcare
- Direct investment

The Board assesses the performance of the operating segments based on a measure of segment results and share of results of a joint venture.

Segment assets consist primarily of intangible assets, property, plant and equipment, right-of-use assets, investment properties, leasehold land and land use rights, inventories, financial assets and operating cash.

The Group operates primarily in Hong Kong and the PRC. In presenting information of geographical segments, segment revenue is based on the geographical destination of delivery of goods and services.

## Notes to the Consolidated Financial Statements

### 4. SEGMENT INFORMATION *(continued)*

#### (a) Operating segments

	Financial services	Property development	Property investment and hotel	Medical and healthcare	Direct investment	2019
	2019	2019	2019	2019	2019	2019
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Income statement</b>						
Interest revenue calculated using effective interest method	75,489	-	-	-	-	75,489
Timing of recognition:						
– At a point in time	144,165	104,165	46,723	34,942	-	329,995
– Over time	31,144	-	92,294	-	4,607	128,045
Revenue	250,798	104,165	139,017	34,942	4,607	533,529
Segment results	90,150	29,793	51,682	(88,257)	(3,366)	80,002
Unallocated net operating expenses						(45,379)
Operating profit						34,623
Finance income – net						10,849
Share of results of a joint venture	-	-	5,553	-	-	5,553
Loss on disposal of a joint venture	-	-	(2,137)	-	-	(2,137)
Profit before taxation						48,888
<b>Balance sheet</b>						
Segment assets	3,292,475	640,862	1,290,225	392,656	95,429	5,711,647
Tax recoverable						1,315
Deferred tax assets						50,949
Corporate assets						243,844
Total assets						6,007,755
<b>Other information</b>						
Depreciation and amortisation	8,520	629	23,302	54,507	1,065	88,023

Note: There were no sales among the operating segments.

#### 4. SEGMENT INFORMATION *(continued)*

##### (a) Operating segments *(continued)*

	Financial services 2018 HK\$'000	Property development 2018 HK\$'000	Property investment and hotel 2018 HK\$'000	Medical and healthcare 2018 HK\$'000	Direct investment 2018 HK\$'000	2018 HK\$'000
<b>Income statement</b>						
Interest revenue calculated using effective interest method	94,118	-	-	-	-	94,118
Timing of recognition:						
- At a point in time	138,168	63,626	38,386	24,539	-	264,719
- Over time	19,941	-	90,120	-	4,828	114,889
Revenue	252,227	63,626	128,506	24,539	4,828	473,726
Segment results	91,455	4,493	44,115	(77,571)	(5,623)	56,869
Unallocated net operating expenses						(45,105)
Operating profit						11,764
Finance income – net						28,408
Share of results of a joint venture	-	-	9,965	-	-	9,965
Profit before taxation						50,137
<b>Balance sheet</b>						
Segment assets	4,364,041	684,859	1,261,404	141,161	131,956	6,583,421
Investment in a joint venture	-	-	216,723	-	-	216,723
Tax recoverable						11,132
Deferred tax assets						31,868
Corporate assets						19,884
Total assets						6,863,028
<b>Other information</b>						
Depreciation and amortisation	1,042	394	13,594	14,591	359	29,980

Note: There were no sales among the operating segments.

## Notes to the Consolidated Financial Statements

### 4. SEGMENT INFORMATION *(continued)* (b) Geographical segments

	Hong Kong 2019 HK\$'000	PRC and others 2019 HK\$'000	2019 HK\$'000
Revenue	286,189	247,340	533,529
Non-current assets*	468,456	1,209,354	1,677,810
	Hong Kong 2018 HK\$'000	PRC and others 2018 HK\$'000	2018 HK\$'000
Revenue	277,116	196,610	473,726
Non-current assets*	217,638	1,347,460	1,565,098

\* Non-current assets exclude FVOCI and deferred tax assets.

### 5. OTHER GAINS – NET

	2019 HK\$'000	2018 HK\$'000
Gain on disposal of subsidiaries	–	1,395
Gain/(loss) on disposal of investment properties	376	(46)
Net loss on disposal of property, plant and equipment	(981)	(1,049)
Net gain on disposal of right-of-use assets	1,685	–
Impairment of right-of-use assets	(3,397)	–
Fair value gains on investment properties	63,172	35,378
Net foreign exchange loss	(3,450)	(1,952)
Others	2,572	–
	<b>59,977</b>	<b>33,726</b>

## 6. OPERATING PROFIT

Operating profit is stated after charging and crediting the following:

	2019 HK\$'000	2018 HK\$'000
Depreciation	87,568	28,957
Amortisation of leasehold land and land use rights ( <i>Note 17</i> )	1,565	1,623
Cost of properties sold	58,875	39,645
Provision for obsolete stock	472	–
Net (reversal of)/losses on impairment of financial assets	(357)	1,889
Stockbroking commission and related expenses	23,511	35,219
Staff costs ( <i>Note 11</i> )	249,645	213,139
Operating lease rental in respect of land and buildings	393	52,808
Auditors' remuneration		
Audit and audit related work		
– the Company's auditor	2,900	2,980
– other auditors	899	996
Non-audit services – the Company's auditor	394	824

## 7. FINANCE INCOME – NET

	2019 HK\$'000	2018 HK\$'000
Finance income		
– Interest income	42,202	50,327
– Interest income from lease assets	259	–
Total finance income	42,461	50,327
Finance costs		
– Interest on loans and overdrafts	(20,065)	(23,278)
– Interest expense on lease liabilities	(11,735)	–
– Less: amounts capitalised as qualifying assets	188	1,359
Total finance costs	(31,612)	(21,919)
Finance income – net	10,849	28,408

Finance costs were capitalised at the weighted average rate of 7% (2018: 12.9%) per annum for the year.

## Notes to the Consolidated Financial Statements

### 8. TAXATION

(a) The amount of taxation charged to the consolidated income statement represents:

	2019 HK\$'000	2018 HK\$'000
Hong Kong profits tax		
Current	12,322	13,206
Over-provision in previous years	(836)	(1,856)
Overseas taxation		
Current	10,147	2,623
Under-provision in previous years	515	16
Land appreciation tax	6,993	3,037
Deferred taxation ( <i>Note 33</i> )	4,162	(3,645)
Taxation charge	<b>33,303</b>	13,381

The taxation on the profit before taxation differs from the theoretical amount that would arise using the Hong Kong profits tax rate as follows:

	2019 HK\$'000	2018 HK\$'000
Profit before taxation (net of share of results of a joint venture)	43,335	40,172
Tax calculated at a taxation rate of 16.5% (2018: 16.5%)	7,150	6,628
Effect of different taxation rates in other countries	195	1,987
Income not subject to taxation	(5,661)	(6,436)
Expenses not deductible for taxation purposes	4,024	1,709
Over-provision in previous years, net	(321)	(1,840)
Unrecognised deferred tax assets	21,316	8,240
Corporate withholding tax	1,352	820
Tax impact of land appreciation tax	(1,748)	(759)
Others	3	(5)
Land appreciation tax	<b>26,310</b>	10,344
	<b>6,993</b>	3,037
Taxation charge	<b>33,303</b>	13,381

**8. TAXATION** *(continued)*

(b) The amount of taxation in the consolidated balance sheet represents:

	2019 HK\$'000	2018 HK\$'000
Recoverable		
Hong Kong	201	1,714
Overseas	1,114	9,418
	<b>1,315</b>	11,132
Payable		
Hong Kong	9,977	–
Overseas	32,405	29,638
	<b>42,382</b>	29,638

**9. EARNINGS PER SHARE**

The calculation of basic and diluted earnings per share is based on the Group's profit attributable to shareholders of HK\$10,618,000 (2018: HK\$33,403,000). The basic earnings per share is based on the weighted average number of 1,418,973,012 (2018: 1,418,973,012) shares in issue during the year.

Diluted earnings per share is the same as the basic earnings per share as there were no dilutive potential ordinary shares in issue during the year.

**10. DIVIDENDS**

The Board does not recommend the payment of a final dividend (2018: Nil) for the year ended 31st December 2019.

**11. STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)**

	2019 HK\$'000	2018 HK\$'000
Wages, salaries and allowance	223,933	190,636
Retirement benefit costs ( <i>Note 13</i> )	12,117	11,866
Other employee benefits	13,595	10,637
	<b>249,645</b>	213,139

## 12. DIRECTORS' BENEFITS AND INTERESTS AND SENIOR MANAGEMENT'S EMOLUMENTS

### (a) Directors' emoluments

The remuneration of each of the directors disclosed pursuant to section 383 of the Hong Kong Companies Ordinance (Cap. 622) and the Companies (Disclosure of Information about Benefits of Directors) Regulation (Cap. 622G) are set out below:

#### (i) For the year ended 31st December 2019

Name of director	Fees HK\$'000	Salary HK\$'000	Discretionary bonuses HK\$'000	Retirement benefit costs HK\$'000	Total HK\$'000
<b>Executive directors:</b>					
Mr. LO Yuen Yat	-	3,927	1,000	326	5,253
Mr. XIN Shulin	-	2,569	1,000	219	3,788
Mr. YEUNG Wai Kin	-	3,356	2,000	284	5,640
<b>Non-executive director:</b>					
Mr. KWOK Lam Kwong, Larry, <i>S.B.S., J.P.</i>	294	-	-	-	294
<b>Independent non-executive directors:</b>					
Prof. WOO Chia-Wei	294	-	-	-	294
Mr. LIU Ji	294	-	-	-	294
Mr. YU Qihao	294	-	-	-	294
Mr. ZHOU Xiaohu	294	-	-	-	294

#### (ii) For the year ended 31st December 2018

Name of director	Fees HK\$'000	Salary HK\$'000	Discretionary bonuses HK\$'000	Retirement benefit costs HK\$'000	Total HK\$'000
<b>Executive directors:</b>					
Mr. LO Yuen Yat	-	3,778	1,000	313	5,091
Mr. XIN Shulin	-	2,471	500	211	3,182
Mr. YEUNG Wai Kin	-	3,223	2,000	273	5,496
<b>Non-executive director:</b>					
Mr. KWOK Lam Kwong, Larry, <i>S.B.S., J.P.</i>	294	-	-	-	294
<b>Independent non-executive directors:</b>					
Prof. WOO Chia-Wei	294	-	-	-	294
Mr. LIU Ji	294	-	-	-	294
Mr. YU Qihao	294	-	-	-	294
Mr. ZHOU Xiaohu	294	-	-	-	294

## 12. DIRECTORS' BENEFITS AND INTERESTS AND SENIOR MANAGEMENT'S EMOLUMENTS *(continued)*

### (a) Directors' emoluments *(continued)*

Details of share options granted, exercised and lapsed during the year are disclosed in the Report of the Directors.

No directors have waived emoluments in respect of the years ended 31st December 2019 and 2018.

### (b) Other directors' benefits and interests

During the years ended 31st December 2019 and 2018, there were:

- (i) no other retirement benefits paid to the directors;
- (ii) no termination on the appointment of directors and thus no payments was made as compensation for the early termination of appointment;
- (iii) no consideration was provided to third parties for making available directors' services;
- (iv) no loans, quasi-loans and other dealings were entered into by the Company or any of its subsidiaries in favour of the directors, their controlled bodies corporate and their connected entities; and
- (v) no significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

### (c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2018: two) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2018: three) individuals during the year are as follows:

	2019 HK\$'000	2018 HK\$'000
Basic salaries, allowances and benefits-in-kind	8,416	7,231
Discretionary bonuses	18,956	18,388
Retirement benefit costs	299	298
	<b>27,671</b>	<b>25,917</b>

The emoluments fell within the following bands:

Emolument bands HK\$	Number of individuals	
	2019	2018
3,500,001 – 4,000,000	–	1
5,000,001 – 5,500,000	1	1
5,500,001 – 6,000,000	1	–
16,500,001 – 17,000,000	1	1
	<b>3</b>	<b>3</b>

### 13. RETIREMENT BENEFIT COSTS – DEFINED CONTRIBUTION PLANS

The Group participates in defined contribution retirement schemes which are available to Hong Kong employees. The rates of contributions are 5% of basic salary from the employees and 5% to 10% from the employer depending on the length of service of the individuals. The assets of the schemes are held separately from those of the Group in independently administered funds. The Group's contributions to the schemes are expensed as incurred and may be reduced by contributions forfeited by those employees who leave the schemes prior to vesting fully in the contributions.

No contribution (2018: Nil) of defined contribution retirement schemes in Hong Kong was forfeited during the year. There were no outstanding balance as at the balance sheet dates of 2019 and 2018 available to reduce the contributions payable in the future years.

Contributions totaling HK\$396,000 (2018: HK\$355,000) were payable to the retirement schemes at the year end and are included in trade and other payables.

The Group also contributes to retirement plans for its employees in the PRC and overseas. The rates of contributions are approximately ranging from 17% to 28% of basic salary from the Group for its employees in the PRC and approximately ranging from 12% to 17% of basic salary from the Group for its overseas employees.

### 14. INTANGIBLE ASSETS

	Goodwill HK\$'000	Trading rights HK\$'000	Total HK\$'000
<b>Cost</b>			
At 1st January 2019	14,838	400	15,238
Exchange difference	(248)	–	(248)
At 31st December 2019	14,590	400	14,990
<b>Accumulated impairment loss</b>			
At 1st January 2019	10,112	–	10,112
Exchange difference	(248)	–	(248)
At 31st December 2019	9,864	–	9,864
<b>Net book value</b>			
At 31st December 2019	4,726	400	5,126

**14. INTANGIBLE ASSETS** *(continued)*

	Goodwill HK\$'000	Trading rights HK\$'000	Total HK\$'000
<b>Cost</b>			
At 1st January 2018	12,244	400	12,644
Addition	3,000	–	3,000
Exchange difference	(406)	–	(406)
At 31st December 2018	14,838	400	15,238
<b>Accumulated impairment loss</b>			
At 1st January 2018	10,518	–	10,518
Exchange difference	(406)	–	(406)
At 31st December 2018	10,112	–	10,112
<b>Net book value</b>			
At 31st December 2018	4,726	400	5,126

**Impairment test for goodwill**

Goodwill acquired through business combination has been allocated to the property development and financial services segments to the extent of HK\$1,726,000 and HK\$3,000,000 respectively for impairment testing.

The recoverable amount of the lowest level of CGU has been determined based on value-in-use calculation using cash flow projections based on financial budgets approved by management covering a period of five years. There are a number of assumptions and estimates involved in the preparation of cash flow projections for the period covered by the approved budget. Key assumptions include the expected growth in revenues and gross margin, timing of future capital expenditures and selection of discount rates. Management determines budgeted gross margin based on past performance and its expectations for the market development. The discount rates used are pre-tax and reflect specific risks relating to the relevant segments.

## 15. (a) PROPERTY, PLANT AND EQUIPMENT

	Land and buildings HK\$'000	Furniture, fixtures and equipment HK\$'000	Vehicles, trucks and machinery HK\$'000	Construction- in-progress HK\$'000	Total HK\$'000
<b>Cost or valuation</b>					
At 1st January 2019	395,597	290,925	22,636	241,999	951,157
Additions	15,313	23,865	7,158	3,446	49,782
Transfer from construction-in-progress	223,088	15,863	–	(238,951)	–
Disposals	–	(3,470)	(286)	–	(3,756)
Exchange differences	(7,925)	(2,957)	(389)	(6,156)	(17,427)
At 31st December 2019	626,073	324,226	29,119	338	979,756
<b>Accumulated depreciation and impairment loss</b>					
At 1st January 2019	91,064	161,322	15,245	344	267,975
Depreciation for the year	14,636	23,951	1,856	–	40,443
Disposals	–	(2,506)	(257)	–	(2,763)
Exchange differences	(1,812)	(2,779)	(316)	(6)	(4,913)
At 31st December 2019	103,888	179,988	16,528	338	300,742
<b>Net book value</b>					
At 31st December 2019	522,185	144,238	12,591	–	679,014

	Land and buildings HK\$'000	Furniture, fixtures and equipment HK\$'000	Vehicles, trucks and machinery HK\$'000	Construction- in-progress HK\$'000	Total HK\$'000
<b>Cost or valuation</b>					
At 1st January 2018	411,113	270,039	30,921	153,709	865,782
Additions	6	29,105	799	94,454	124,364
Disposals	–	(1,851)	(7,915)	–	(9,766)
Disposal of a subsidiary	–	(42)	–	–	(42)
Exchange differences	(15,522)	(6,326)	(1,169)	(6,164)	(29,181)
At 31st December 2018	395,597	290,925	22,636	241,999	951,157
<b>Accumulated depreciation and impairment loss</b>					
At 1st January 2018	85,629	150,679	20,695	362	257,365
Depreciation for the year	8,833	18,259	1,865	–	28,957
Disposals	–	(1,637)	(6,359)	–	(7,996)
Disposal of a subsidiary	–	(14)	–	–	(14)
Exchange differences	(3,398)	(5,965)	(956)	(18)	(10,337)
At 31st December 2018	91,064	161,322	15,245	344	267,975
<b>Net book value</b>					
At 31st December 2018	304,533	129,603	7,391	241,655	683,182

**15. (a) PROPERTY, PLANT AND EQUIPMENT** *(continued)*

A freehold land with carrying amount of HK\$106,780,000 (2018: HK\$109,569,000) was included under "Land and buildings" category.

A land and building with carrying amount of HK\$44,689,000 (2018: HK\$45,296,000) is stated at professional valuation in 1994 less accumulated depreciation. If this land and building has been stated on the historical cost basis, its net book amount would be HK\$20,078,000 (2018: HK\$21,346,000).

As at 31st December 2018, certain freehold land and construction-in-progress with net book value of HK\$351,224,000 were pledged to a bank in order to obtain a bank guarantee.

**15. (b) LEASES****(i) Amounts recognised in the consolidated balance sheet**

The consolidated balance sheet shows the following amounts relating to leases:

	2019 HK\$'000	1st January 2019 HK\$'000
<b>Right-of-use assets</b>		
Land and buildings	256,010	311,498
Vehicles, trucks and machinery	5,925	5,520
	<b>261,935</b>	317,018
<b>Lease liabilities</b>		
Current	44,041	43,696
Non-current	261,782	299,347
	<b>305,823</b>	343,043

Additions to the right-of-use assets during the 2019 financial year were HK\$8,414,000.

## Notes to the Consolidated Financial Statements

### 15. (b) LEASES *(continued)*

#### (ii) Amounts recognised in the consolidated income statement

The consolidated income statement shows the following amounts related to leases:

	2019 HK\$'000	2018 HK\$'000
<b>Depreciation charge of right-of-use assets</b>		
Land and buildings	44,923	–
Vehicles, trucks and machinery	2,202	–
	<b>47,125</b>	–
Expense relating to short-term leases (included in administrative expenses)	393	–

The total cash outflow for leases in 2019 was HK\$57,150,000.

Rental received from sub-leasing right-of-use assets was HK\$764,000.

The Group leases various premises, offices, equipment and vehicles. Rental contracts are typically made for fixed periods, but may have extension options in a number of property leases across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

During the year ended 31st December 2019, management carried out an impairment review on the right-of-use assets and property, plant and equipment of the Group's Medical and Healthcare segment. Based on the results of the impairment assessment, the recoverable amounts of certain right-of-use assets within the segment were determined to be HK\$34.6 million, which exceeded their carrying amounts by HK\$3.4 million. As a result, an impairment loss on right-of-use assets of HK\$3.4 million has been recognised in the consolidated income statement for the year ended 31st December 2019. The recoverable amounts have been determined based on the value-in-use calculations. The discount rate used of 3.6% is pre-tax and reflect the specific risks relating to the relevant business.

## 16. INVESTMENT PROPERTIES

	2019 HK\$'000	2018 HK\$'000
Valuation at 1st January	598,135	566,029
Transfer from properties held for sale	14,509	30,136
Disposals	(2,432)	(10,761)
Fair value gains	63,172	35,378
Exchange differences	(11,852)	(22,647)
Valuation at 31st December	661,532	598,135
	2019 HK\$'000	2018 HK\$'000
Rental income recognised in consolidated income statement for investment properties	19,126	19,937
Operating expenses recognised in consolidated income statement for rental income	1,868	2,025

The recurring fair value measurements for investment properties are included in level 3 of the fair value hierarchy. The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. There were no transfer between level 1, 2 and 3 during the year.

## Fair value measurements using significant unobservable inputs (Level 3)

	2019 HK\$'000	2018 HK\$'000
Total gains or losses for the year included in the consolidated income statement for assets held at the end of the year, under "Other gains – net"	63,172	35,378
Change in unrealised gains for the year included in the consolidated income statement for assets held at the end of the year	63,172	35,378

## 16. INVESTMENT PROPERTIES *(continued)*

### Valuation processes

The Group's investment properties were revalued at 31st December 2019 and 2018 by independent, professionally qualified valuers who have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations.

The Group's finance department includes a team that review the valuations performed by the independent valuers for financial reporting purposes. This team reports directly to the top management. Discussions of valuation processes and results are held between the valuation team and valuers at least once a year, in line with the Group's annual reporting dates.

At each financial year end, the finance department:

- verifies all major inputs of the independent valuation report;
- assesses property valuations movements when compared to the prior year valuation report; and
- holds discussion with the independent valuers.

Changes in level 2 and 3 fair values are analysed at each reporting date during the annual valuation discussion between the top management and the valuation team. As part of this discussion, the team presents a report that explains the reasons for the fair value movement.

### Valuation techniques

Certain properties valuation was determined using the direct comparison approach. Sales prices of comparable properties in close proximity are adjusted for differences in key attributes such as conditions, location, building age and etc. The most significant input into this valuation approach is price per square meter.

The other properties valuation was determined using income capitalisation approach. In the valuation, the market rentals of all lettable units of the properties are assessed by reference to the rentals achieved in the lettable units as well as other lettings of similar properties in the neighbourhood. The capitalisation rate adopted is made by reference to the yield rates observed by the valuers for the similar properties in the locality and adjusted based on the valuers' knowledge of the factors specific to the respective properties. The most significant unobservable inputs into this valuation approach are monthly market rent and the capitalisation rate.

There were no changes to the valuation techniques during the year.

**16. INVESTMENT PROPERTIES** (continued)

Information about fair value measurements using significant unobservable inputs (Level 3) as at 31st December 2019 and 2018

Valuation technique(s)	Unobservable inputs	Relationship	Range
<b>(a) PRC properties in the first tier cities</b>			
Direct comparison approach	Sales price	Higher fair value with higher sales price	HK\$18,000 – HK\$100,000 (2018: HK\$21,000 – HK\$91,000) per square meter
<b>(b) PRC properties in other cities</b>			
Direct comparison approach	Sales price	Higher fair value with higher sales price	HK\$10,000 – HK\$14,000 (2018: HK\$10,000 – HK\$13,000) per square meter
Income capitalisation approach	Monthly market rent	Higher fair value with higher monthly market rent	HK\$41 – HK\$104 (2018: HK\$39 – HK\$103) per square meter
	Capitalisation rate	Lower fair value with higher capitalisation rate	3%–8% (2018: 3%–9%)
<b>(c) HK properties</b>			
Direct comparison approach	Sales price	Higher fair value with higher sales price	HK\$280,000 – HK\$398,000 (2018: HK\$261,000 – HK\$512,000) per square meter

There are inter-relationships between unobservable inputs. An increase in future rental income may be linked with higher costs.

**17. LEASEHOLD LAND AND LAND USE RIGHTS**

The Group's interests in leasehold land and land use rights represent prepaid operating lease payments and the movements in the net book value thereof are analysed as follows:

	2019 HK\$'000	2018 HK\$'000
Net book value at 1st January	43,025	45,636
Amortisation for the year (Note 6)	(1,565)	(1,623)
Exchange differences	(417)	(988)
Net book value at 31st December	41,043	43,025

## Notes to the Consolidated Financial Statements

### 18. SUBSIDIARIES

The following is a list of the principal subsidiaries at 31st December:

Name	Place of incorporation/ operation	Particulars of issued share capital/ registered capital	Effective interest held		Principal activities
			2019	2018	
<b>Shares held directly:</b>					
Advance Sight International Limited	British Virgin Islands	10 ordinary shares of US\$1 each	100%	100%	Investment holding
Ever Achieve Investments Limited	British Virgin Islands	10 ordinary shares of US\$1 each	–	100%	Securities investment
First Shanghai Direct Investments Limited	Hong Kong	2 ordinary shares	100%	100%	Investment holding
First Shanghai Finance Limited	Hong Kong	2 ordinary shares	100%	100%	Money lending
First Shanghai Holdings Limited	Hong Kong	2 ordinary shares	100%	100%	Investment holding
First Shanghai Management Services Limited	Hong Kong	1,200,000 ordinary shares	100%	100%	Agency, management and secretarial services
First Shanghai Nominees Limited	Hong Kong	2 ordinary shares	100%	100%	Nominee services
First Shanghai Properties Limited	Hong Kong	16,500,002 ordinary shares	100%	100%	Property investment
Firstech Financial Holdings Limited	Cayman Islands	1 ordinary share of US\$1 each	100%	100%	Investment holding
Headmost Technology Limited	British Virgin Islands	10 ordinary shares of US\$1 each	100%	100%	Investment holding
IVF Centre (Hong Kong) Limited	Hong Kong	10 ordinary shares	100%	100%	Provision of medical and healthcare services
Leung Investments Limited	British Virgin Islands	10 ordinary shares of US\$1 each	100%	100%	Property investment
UAT Holdings Limited	British Virgin Islands	100 ordinary shares of US\$1 each	100%	100%	Investment holding
Well Far Limited	British Virgin Islands	10 ordinary shares of US\$1 each	100%	100%	Securities investment
Wise International Trading Limited	Hong Kong	10 ordinary shares	100%	100%	Investment holding
Yearson Properties Limited	British Virgin Islands	10 ordinary shares of US\$1 each	100%	100%	Property investment

## 18. SUBSIDIARIES (continued)

Name	Place of incorporation/ operation	Particulars of issued share capital/ registered capital	Effective interest held		Principal activities
			2019	2018	
<b>Shares held indirectly:</b>					
Best Glory Holdings Limited	Hong Kong	1 ordinary share	100%	100%	Property investment
Billion Bright Investments Limited	British Virgin Islands	10 ordinary shares of US\$1 each	100%	100%	Securities investment
Bonvision Consultancy (Beijing) Company Limited	PRC (a)	HK\$500,000	100%	100%	Financial consultancy
Bonvision Consulting (Shanghai) Limited	PRC (a)	US\$200,000	100%	100%	Financial consultancy
Bright Shining Limited	British Virgin Islands	10 ordinary shares of US\$1 each	100%	100%	Property investment
China Betung Automobile (H.K.) Company Limited	Hong Kong	2 ordinary shares	100%	100%	Investment holding
Clear Profit Investments Limited	British Virgin Islands	10 ordinary shares of US\$1 each	100%	100%	Property investment
Crimson Pharmaceutical (Hong Kong) Limited	Hong Kong	1,000 ordinary shares	100%	100%	Pharmaceutical services
Crimson Pharmaceutical (Shanghai) Company Limited	PRC (a)	US\$1,400,000	100%	100%	Pharmaceutical services
CVIC International Container Transportation Company Limited	Hong Kong	10,000 ordinary shares	100%	100%	Investment holding
First eFinance Limited	Hong Kong	2 ordinary shares	100%	100%	Internet financial service system services
First Shanghai Capital Limited	Hong Kong	22,000,000 ordinary shares	100%	100%	Corporate finance
First Shanghai Financial Investments Limited	Hong Kong	100 ordinary shares	100%	100%	Investment holding
First Shanghai Financial Holding Limited	British Virgin Islands	10 ordinary shares of US\$1 each	100%	100%	Investment holding
First Shanghai Futures Limited	Hong Kong	34,000,000 ordinary shares	100%	100%	Futures broking
First Shanghai Hotel Limited	France	100 ordinary shares of EUR100 each	100%	100%	Hotel operation

## Notes to the Consolidated Financial Statements

### 18. SUBSIDIARIES (continued)

Name	Place of incorporation/ operation	Particulars of issued share capital/ registered capital	Effective interest held		Principal activities
			2019	2018	
<b>Shares held indirectly: (continued)</b>					
First Shanghai Investment Holding Group Limited	British Virgin Islands	100,000 ordinary shares of US\$1 each	<b>99.9%</b>	99.9%	Investment holding
First Shanghai Investment Management (HK) Limited	Hong Kong	7,000,000 ordinary shares	<b>100%</b>	100%	Asset management
First Shanghai Properties (Kunshan) Company Limited	PRC (b)	US\$5,000,000	<b>70%</b>	70%	Property development
First Shanghai Real Estate (Holdings) Limited	Hong Kong	10 ordinary shares	<b>100%</b>	100%	Investment holding
First Shanghai Resort S.a.r.l.	Luxembourg	12,500 ordinary shares of EUR1 each	<b>100%</b>	100%	Investment holding
First Shanghai Securities Limited	Hong Kong	85,000,000 ordinary shares	<b>100%</b>	100%	Stockbroking
Fu Hai Digital Science & Technology (Shanghai) Company Limited	PRC (a)	US\$5,000,000	<b>100%</b>	100%	Investment holding
Gold S.A.S.	France	2,000,000 ordinary shares of EUR7.01 each	<b>100%</b>	100%	Hotel and golf course operation
HK Landshine Real Estate Limited	Hong Kong	1 ordinary share	<b>100%</b>	100%	Investment holding
Huangshan Hui Zhong Property Development Company Limited	PRC (a)	US\$5,000,000	<b>100%</b>	100%	Property development
IMC (Hong Kong) Management Services Limited	Hong Kong	10 ordinary shares	<b>100%</b>	100%	Management services
International Medical Centre (Hong Kong) Limited	Hong Kong	10 ordinary shares	<b>100%</b>	100%	Provision of medical and healthcare services
International Child Dental Centre (Hong Kong) Limited	Hong Kong	1,000,000 ordinary shares	<b>60%</b>	–	Provision of dental services
Jonan Industries Limited	British Virgin Islands	100 ordinary shares of US\$1 each	<b>100%</b>	100%	Investment holding
Kunshan Shi Jingying Hotel Management Company Limited	PRC (c)	RMB1,000,000	<b>70%</b>	70%	Hotel operation
Leader Capital Investments Limited	British Virgin Islands	10 ordinary shares of US\$1 each	<b>100%</b>	100%	Investment holding
Leading Business Limited	British Virgin Islands	1,450,000 ordinary shares of US\$1 each	<b>100%</b>	100%	Property investment

## 18. SUBSIDIARIES (continued)

Name	Place of incorporation/ operation	Particulars of issued share capital/ registered capital	Effective interest held		Principal activities
			2019	2018	
<b>Shares held indirectly: (continued)</b>					
Peak Achieve Investments Limited	British Virgin Islands	1 ordinary share of US\$1 each	100%	100%	Investment holding
Shanghai Fu Heng Properties Management Limited	PRC (c)	RMB50,000	100%	55%	Property management
Shanghai Transvision Network Application Service Company Limited	PRC (a)	US\$1,800,000	100%	100%	Investment holding
Shanghai Zhong Chuang International Container Storage & Transportation Company Limited	PRC (b)	US\$11,025,000	62%	62%	Container transportation and freight forwarding
United Asia Transport Limited	Hong Kong	2 ordinary shares	100%	100%	Investment holding
Union Light International Limited	Hong Kong	1 ordinary share	100%	100%	Investment holding
World Trade Capital Group Limited	Hong Kong	2,200,000 ordinary shares	100%	100%	Insurance broking
World Venture Holdings Limited	British Virgin Islands	10 ordinary shares of US\$1 each	100%	100%	Investment holding
Wuxi HK Landshine Real Estate Company Limited ("Wuxi Landshine")	PRC (b)	US\$20,000,000	70%	70%	Property development
Wuxi Sunshine Real Estate Limited	PRC (a)	US\$30,000,000	100%	100%	Hotel operation
Zhongshan Sunshine Resort Limited	PRC (a)	RMB80,000,000	99.9%	99.9%	Property development

## Notes:

- (a) Subsidiaries incorporated in the PRC registered as wholly-owned foreign enterprises.
- (b) Subsidiaries incorporated in the PRC registered as sino-foreign equity joint ventures.
- (c) Subsidiaries incorporated in the PRC registered as limited liability companies.

**Material non-controlling interests**

The total non-controlling interest for the year is HK\$76,891,000 (2018: HK\$74,394,000), of which HK\$58,645,000 (2018: HK\$55,263,000) is attributed to Wuxi Landshine. The non-controlling interests in respect of the other companies are not material.

## Notes to the Consolidated Financial Statements

### 18. SUBSIDIARIES (continued)

#### Summarised financial information for a subsidiary with material non-controlling interests

Set out below are the summarised financial information for Wuxi Landshine that has non-controlling interests material to the Group.

	2019 HK\$'000	2018 HK\$'000
<b>Summarised income statement</b>		
Revenue	9,911	12,649
Profit after taxation	15,582	12,056
Total comprehensive income	15,582	12,056
<b>Summarised balance sheet</b>		
<b>Assets</b>		
Non-current assets	261,262	232,689
Current assets	217,958	234,750
	479,220	467,439
<b>Liabilities</b>		
Non-current liabilities	90,373	67,822
Current liabilities	193,362	215,405
	283,735	283,227
<b>Net assets</b>	<b>195,485</b>	<b>184,212</b>
<b>Summarised cash flows</b>		
Cash flows generated from operating activities	6,704	12,416
Net cash from investing activities	46	30
Net cash used in financing activities	(7,519)	(7,639)
Net (decrease)/increase in cash and cash equivalents	(769)	4,807
Cash and cash equivalents at 1st January	7,759	3,152
Exchange difference	(169)	(200)
Cash and cash equivalents at 31st December	6,821	7,759

The information above is the amount before inter-company eliminations.

## 19. INVESTMENT IN A JOINT VENTURE

	2019 HK\$'000	2018 HK\$'000
At 1st January	216,723	224,037
Share of joint venture's results		
– Profit before taxation	6,500	12,391
– Taxation	(947)	(2,426)
Dividend income	(6,582)	(6,917)
Disposal	(209,579)	–
Exchange differences	(6,115)	(10,362)
At 31st December	–	216,723

The following are details of the joint venture at 31st December:

Name	Place of incorporation/ establishment and operation	Effective interest in ownership/voting power/profit sharing		Measurement method
		2019	2018	
Shanghai Zhangjiang Property Development Company Limited ("Zhangjiang") (see note below)	PRC	–	50%	Equity

Note:

Zhangjiang was established as an equity joint venture in the PRC in October 2002 for a term of 50 years. It is principally engaged in property development.

Zhangjiang is a private company and there is no quoted market price available for its shares.

## 19. INVESTMENT IN A JOINT VENTURE *(continued)*

### Summarised financial information and reconciliation for a material joint venture

Set out below is the summarised financial information for Zhangjiang which is accounted for using the equity method.

	2018 HK\$'000
<b>Summarised income statement</b>	
Revenue	27,794
Depreciation and amortisation	163
Interest income	101
Income tax charge	4,852
Profit after taxation	19,929
Total comprehensive income	19,929
Dividends received from a joint venture	6,917
<b>Summarised balance sheet</b>	
<b>Assets</b>	
Non-current assets	489,415
Cash and cash equivalents	34,447
Other current assets	48,894
Total current assets	83,341
	572,756
<b>Liabilities</b>	
Non-current liabilities	86,490
Current liabilities	52,820
	139,310
<b>Net assets</b>	433,446
Interest attributable to the Group	216,723

**19. INVESTMENT IN A JOINT VENTURE** *(continued)***Summarised financial information and reconciliation for a material joint venture** *(continued)*

The information above reflects the amounts presented in the financial statements of the joint venture (and not the Group's share of those amounts) adjusted for differences in accounting policies between the Group and the joint venture, if any.

**20. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME**

	2019 HK\$'000	2018 HK\$'000
At 1st January	127,158	184,630
Fair value change transfer to other comprehensive income	(30,025)	(57,472)
Balance at 31st December	97,133	127,158

The FVOCI represents an unlisted equity security, which fair value is determined with reference to the published price quotations in an active market of the underlying investments held by the investee.

**21. LOANS AND ADVANCES**

	2019 HK\$'000	2018 HK\$'000
Loans and advances <i>(note (a))</i>	56,106	56,185
Loss allowance	(56,106)	(56,185)
	—	—
Margin loans <i>(note (b))</i>	1,170,167	750,407
Loss allowance	(5,354)	(4,925)
	1,164,813	745,482

## Notes to the Consolidated Financial Statements

### 21. LOANS AND ADVANCES *(continued)*

Notes:

- (a) *The carrying value of loans and advances approximates to their fair value.*

*The movements in the loss allowance of loans and advances are as follows:*

	<b>2019</b> <b>HK\$'000</b>	2018 HK\$'000
At 1st January	<b>56,185</b>	56,359
Exchange differences	<b>(79)</b>	(174)
At 31st December	<b>56,106</b>	56,185

*The carrying amounts of loans and advances are denominated in Hong Kong dollars.*

- (b) *Margin loans to third parties are bearing interest at commercial rates, secured by the underlying pledged securities and are repayable on demand. The carrying values of margin loans approximate to their fair values.*

*The movements in the loss allowance of margin loans are as follows:*

	<b>2019</b> <b>HK\$'000</b>	2018 HK\$'000
At 1st January	<b>4,925</b>	2,927
Increase in loss allowance during the year	<b>429</b>	1,998
Balance at 31st December	<b>5,354</b>	4,925

## 22. FINANCE LEASE RECEIVABLES

When assets are leased out under a finance lease, the present value of the lease payments is recognised as a receivable. The difference between the gross receivable and the present value of the receivable is recognised as unearned finance income.

The method for allocating gross earnings to accounting periods is referred to as "actuarial method". The actuarial method allocates rentals between finance income and repayment of capital in each accounting period in such a way that finance income will emerge as a constant rate of return on the lessor's net investment in the lease.

	2019 HK\$'000	2018 HK\$'000
<b>Non-current receivables (later than 5 years)</b>		
Finance leases – gross receivables	4,293	–
Unearned finance income	(147)	–
	4,146	–
<b>Non-current receivables (later than 1 year and not later than 5 years)</b>		
Finance leases – gross receivables	9,173	–
Unearned finance income	(1,197)	–
	7,976	–
	12,122	–
<b>Current receivables (not later than 1 year)</b>		
Finance leases – gross receivables	2,293	–
Unearned finance income	(472)	–
	1,821	–
<b>Net investment in finance leases</b>	13,943	–

## 23. INVENTORIES

	2019 HK\$'000	2018 HK\$'000
Properties under development	185,032	178,053
Properties held for sale	302,842	379,811
Other inventories	3,697	3,827
	<b>491,571</b>	561,691

## 24. TRADE RECEIVABLES

	2019 HK\$'000	2018 HK\$'000
Due from stockbrokers and clearing houses	121,783	149,463
Due from stockbroking clients	51,272	67,982
Trade receivables – others	31,993	22,074
	<b>205,048</b>	239,519
Loss allowance	<b>(14,498)</b>	(14,813)
	<b>190,550</b>	224,706

All trade receivables are either repayable within one year or on demand. The fair value of the trade receivables is approximately the same as the carrying value.

The settlement terms of receivables attributable to the securities trading and stockbroking business are two days after the trade date, and those of receivables attributable to the futures broking business are one day after the trade date. For the remaining business of the Group, trade receivables are on general credit terms of 30 to 90 days.

**24. TRADE RECEIVABLES** *(continued)*

The ageing analysis of the trade receivables based on invoice date is as follows:

	<b>2019</b> <b>HK\$'000</b>	2018 HK\$'000
0 – 30 days	<b>182,285</b>	221,215
31 – 60 days	<b>5,357</b>	2,808
61 – 90 days	<b>2,362</b>	601
Over 90 days	<b>546</b>	82
	<b>190,550</b>	224,706

The movements in the loss allowance are as follows:

	<b>2019</b> <b>HK\$'000</b>	2018 HK\$'000
At 1st January	<b>14,813</b>	15,616
Decrease in loss allowance during the year	–	(109)
Exchange differences	<b>(315)</b>	(694)
At 31st December	<b>14,498</b>	14,813

The carrying amounts of trade receivables are denominated in the following currencies:

	<b>2019</b> <b>HK\$'000</b>	2018 HK\$'000
Hong Kong dollars	<b>142,910</b>	180,504
Renminbi	<b>7,622</b>	25,469
US dollars	<b>37,608</b>	17,756
Euro	<b>1,439</b>	115
Others	<b>971</b>	862
	<b>190,550</b>	224,706

The maximum credit risk exposure is the amount shown on the consolidated balance sheet.

## 25. OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

	2019 HK\$'000	2018 HK\$'000
<b>Non-current</b>		
Prepayments and deposits	17,038	18,907
<b>Current</b>		
Other receivables (Note)	259,409	38,012
Prepayments and deposits	20,595	26,352
Loss allowance	280,004 (3,543)	64,364 (4,629)
	276,461	59,735
	293,499	78,642

The fair values of the other receivables and deposits are approximately the same as the carrying values.

The movements in the loss allowance are as follows:

	2019 HK\$'000	2018 HK\$'000
At 1st January	4,629	4,853
Decrease in loss allowance during the year	(786)	–
Written off	(213)	–
Exchange differences	(87)	(224)
At 31st December	3,543	4,629

Note:

Included in other receivables as at 31st December 2019 was sales proceeds receivable from disposal of the joint venture (Note 19) amounting to HK\$223,273,000 which had been subsequently settled after year end.

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

	2019 HK\$'000	2018 HK\$'000
Equity securities		
– Listed, Overseas	17	22
Market value of financial assets	17	22

FVPL are presented within the section of operating activities as part of changes in working capital in the consolidated statement of cash flows (*Note 34*).

The fair value of all quoted securities is determined by reference to current bid prices in an active market.

## 27. DEPOSITS WITH BANKS

	2019 HK\$'000	2018 HK\$'000
Pledged	–	23,291
Non-pledged	11,163	36,054
	11,163	59,345

The carrying amounts of the deposits with banks are denominated in the following currencies:

	2019 HK\$'000	2018 HK\$'000
Euro	–	23,291
Renminbi	11,163	36,054
	11,163	59,345

The effective interest rate on the deposits was 2.25% (2018: ranged from 0.002% to 1.75%) per annum.

As at 31st December 2019, deposits of HK\$11,163,000 (2018: HK\$36,054,000) are held in the PRC and are subject to local exchange control regulations. These local exchange control regulations provide for restrictions on exporting capital from the PRC, other than through normal dividends.

As at 31st December 2019, no deposits (2018: HK\$23,291,000) are pledged to a bank in order to obtain a bank guarantee.

## 28. CASH AND BANK BALANCES AND CLIENT TRUST BANK BALANCES

	2019 HK\$'000	2018 HK\$'000
Cash at bank and in hand	183,070	255,315
Short-term bank deposits		
– pledged	15,000	15,000
– non-pledged	18,200	68,994
Total cash and cash equivalents	216,270	339,309
Client trust bank balances	1,827,882	3,137,482
	<b>2,044,152</b>	<b>3,476,791</b>

Cash, bank balances and bank overdrafts include the following for the purposes of the consolidated statement of cash flows:

	2019 HK\$'000	2018 HK\$'000
Cash and bank balances	216,270	339,309
Bank overdrafts ( <i>Note 30</i> )	(8,420)	(7,158)
Cash and cash equivalents	<b>207,850</b>	<b>332,151</b>

The carrying amounts of cash and bank balances and client trust bank balances are denominated in the following currencies:

	2019 HK\$'000	2018 HK\$'000
Hong Kong dollars	1,612,822	2,843,891
Renminbi	218,569	175,479
US dollars	209,947	454,788
Euro	2,814	2,633
	<b>2,044,152</b>	<b>3,476,791</b>

Bank balances of HK\$109,845,000 (2018: HK\$89,099,000) are held in the PRC and are subject to local exchange control regulations. These local exchange control regulations provide for restrictions on exporting capital from the PRC, other than through normal dividends.

The effective interest rate on short-term pledged deposits ranged from 2.00% to 2.45% (2018: 1.75% to 2.28%) per annum.

**28. CASH AND BANK BALANCES AND CLIENT TRUST BANK BALANCES** *(continued)*

The Group maintains trust and segregated accounts with authorised financial institutions to hold clients' deposits arising from normal business transactions. The Group has classified in the consolidated balance sheet the clients' deposits as client trust bank balances in the current assets section and recognised the corresponding trade payables to the respective clients in the current liabilities section, on the grounds that the Group is liable for any misappropriation of the respective clients' deposits as stipulated under the Hong Kong Securities and Futures Ordinance ("SFO"). The Group is not allowed to use the clients' monies to settle its own obligations under the SFO. As such, these monies are not included in cash and cash equivalents of the Group for cash flow purposes in the consolidated statement of cash flows.

**29. TRADE AND OTHER PAYABLES**

	2019 HK\$'000	2018 HK\$'000
Due to stockbrokers and dealers	123,746	88,015
Due to stockbroking clients and clearing houses	1,997,423	3,244,300
Trade payables	153,576	165,985
Total trade payables	2,274,745	3,498,300
Contract liabilities	31,087	40,857
Accruals and other payables	164,418	159,304
	<b>2,470,250</b>	<b>3,698,461</b>

Revenue recognised that was included in the contract liabilities balance at the beginning of the period amounted to HK\$31,336,000 (2018: HK\$29,212,000).

The majority of the trade and other payables are either repayable within one year or on demand except where certain trade payables to stockbroking clients represent margin deposits received from clients for their trading activities under normal course of business. Only the excess amounts over the required margin deposits stipulated are repayable on demand. The fair values of the trade and other payables are approximately the same as the carrying values.

Trade and other payables to stockbroking clients also include those payables placed in trust and segregated accounts with authorised institutions of HK\$1,827,882,000 (2018: HK\$3,137,482,000).

Trade and other payables are non-interest bearing except for the amount due to stockbroking clients placed in trust and segregated accounts with authorised institutions which bear interest at the rate with reference to the bank deposit savings rate.

No ageing analysis is disclosed for amounts due to stockbrokers, dealers, stockbroking clients and clearing houses as in the opinion of directors, it does not give additional value in view of the nature of these businesses.

## Notes to the Consolidated Financial Statements

### 29. TRADE AND OTHER PAYABLES *(continued)*

The ageing analysis of the trade payables based on invoice date is as follows:

	2019 HK\$'000	2018 HK\$'000
0 – 30 days	127,873	136,445
31 – 60 days	4,957	4,147
61 – 90 days	6,241	2,169
Over 90 days	14,505	23,224
	<b>153,576</b>	165,985

The carrying amounts of the trade and other payables are denominated in the following currencies:

	2019 HK\$'000	2018 HK\$'000
Hong Kong dollars	1,951,905	3,193,193
Renminbi	266,117	297,294
US dollars	231,187	185,151
Euro	20,110	21,981
Others	931	842
	<b>2,470,250</b>	3,698,461

## 30. BORROWINGS

	2019 HK\$'000	2018 HK\$'000
<b>Non-current</b>		
Bank loans – secured	149,590	156,357
<b>Current</b>		
Other loan – secured	–	3,562
Other loan – unsecured	15,135	2,853
Bank loans – secured	204,466	99,385
Bank overdrafts – secured	8,420	7,158
	228,021	112,958
	377,611	269,315

The borrowings were repayable as follows:

	Bank loans		Other loans	
	2019 HK\$'000	2018 HK\$'000	2019 HK\$'000	2018 HK\$'000
Within 1 year	212,886	106,543	15,135	6,415
Between 1 and 2 years	21,210	53,641	–	–
Between 2 and 5 years	79,260	57,065	–	–
Over 5 years	49,120	45,651	–	–
At 31st December	362,476	262,900	15,135	6,415

The Group has pledged properties of HK\$166 million (2018: HK\$174 million), investment properties of HK\$294 million (2018: HK\$269 million), leasehold land and land use rights of HK\$32 million (2018: HK\$34 million), properties held for sale of HK\$211 million (2018: HK\$224 million) and fixed deposits of approximately HK\$15 million (2018: HK\$15 million) to secure bank borrowings.

Bank borrowings of HK\$50,000,000 (2018: Nil) were secured by certain listed securities pledged by the customers to the Group as margin loan collateral which had an aggregate fair value amounting to HK\$164,865,000 (2018: Nil).

## Notes to the Consolidated Financial Statements

### 30. BORROWINGS (continued)

No other loan (2018: HK\$3,562,000) is secured by certain properties under development and properties held for sale of a subsidiary that has received this loan.

Bank borrowings are either repayable on demand or will mature and be repayable in January 2020 to June 2029 and bear floating interest rates. The weighted average effective interest rate at 31st December 2019 was 5.57% (2018: 4.92%) per annum. The carrying amounts of borrowings approximate to their fair values. Out of the total amount, approximately HK\$208,420,000 (2018: HK\$75,158,000) and HK\$154,056,000 (2018: HK\$187,742,000) are denominated in Hong Kong dollars and Renminbi, respectively.

### 31. SHARE CAPITAL

	2019		2018	
	Number of shares (thousands)	HK\$'000	Number of shares (thousands)	HK\$'000
Ordinary shares, issued and fully paid:				
At 31st December 2019 and 2018	<b>1,418,973</b>	<b>1,162,940</b>	1,418,973	1,162,940

Notes:

On 23rd May 2014, the shareholders of the Company approved a share option scheme (the "Scheme"). No share options were granted under the Scheme during the year. The purpose of the Scheme is to assist in recruiting, retaining and motivating key staff members. Under the terms of the Scheme, the directors have the discretion to grant to employees and directors of any member of the Group to subscribe for shares in the Company.

During the year, no share options were granted or exercised under the Scheme approved by the shareholders of the Company.

## 32. RESERVES

	Attributable to shareholders of the Company					
	Capital reserve HK\$'000	Assets revaluation reserve HK\$'000	Financial assets at fair value through other comprehensive income reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
<b>Balance at 31st December 2018 as originally presented</b>	<b>38,529</b>	<b>12,334</b>	<b>66,752</b>	<b>20,352</b>	<b>1,399,857</b>	<b>1,537,824</b>
Change in accounting policies (Note 2.1(b)(i))	-	-	-	-	(11,754)	(11,754)
<b>Restated total equity at 1st January 2019</b>	<b>38,529</b>	<b>12,334</b>	<b>66,752</b>	<b>20,352</b>	<b>1,388,103</b>	<b>1,526,070</b>
Profit for the year	-	-	-	-	10,618	10,618
Fair value loss on FVOCI	-	-	(30,025)	-	-	(30,025)
Reserves realised upon disposal of a joint venture	-	-	-	(3,250)	-	(3,250)
Currency translation differences	-	-	-	(30,817)	-	(30,817)
<b>Total comprehensive loss</b>	<b>-</b>	<b>-</b>	<b>(30,025)</b>	<b>(34,067)</b>	<b>10,618</b>	<b>(53,474)</b>
Transaction with non-controlling interests	-	-	-	-	(1,160)	(1,160)
Transfer from retained earnings	226	-	-	-	(226)	-
	<b>226</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(1,386)</b>	<b>(1,160)</b>
<b>At 31st December 2019</b>	<b>38,755</b>	<b>12,334</b>	<b>36,727</b>	<b>(13,715)</b>	<b>1,397,335</b>	<b>1,471,436</b>

## Notes to the Consolidated Financial Statements

### 32. RESERVES (continued)

	Attributable to shareholders of the Company					
	Capital reserve HK\$'000	Assets revaluation reserve HK\$'000	Financial assets at fair value through other comprehensive income reserve HK\$'000	Exchange fluctuation reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
<b>At 1st January 2018</b>	38,258	12,334	124,224	79,536	1,366,725	1,621,077
Profit for the year	–	–	–	–	33,403	33,403
Fair value loss on FVOCI	–	–	(57,472)	–	–	(57,472)
Reserves realised upon disposal of subsidiaries	–	–	–	2	–	2
Currency translation differences	–	–	–	(59,186)	–	(59,186)
<b>Total comprehensive loss</b>	–	–	(57,472)	(59,184)	33,403	(83,253)
Transfer from retained earnings	271	–	–	–	(271)	–
	271	–	(57,472)	(59,184)	33,132	(83,253)
<b>At 31st December 2018</b>	38,529	12,334	66,752	20,352	1,399,857	1,537,824

Note: As at 31st December 2019, capital reserve mainly represents statutory reserves of the Group's subsidiaries.

### 33. DEFERRED TAXATION

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts, not to be recovered within twelve months, are as follows:

	2019 HK\$'000	2018 HK\$'000
Deferred tax assets	(50,949)	(31,868)
Deferred tax liabilities	93,915	74,893
	42,966	43,025

**33. DEFERRED TAXATION** *(continued)*

The gross movements in the deferred taxation are as follows:

	2019 HK\$'000	2018 HK\$'000
At 31st December	<b>43,025</b>	49,821
Change in accounting policies <i>(Note 2.1(b)(i))</i>	<b>(2,283)</b>	–
At 1st January	<b>40,742</b>	49,821
Recognised in the consolidated income statement <i>(Note 8(a))</i>	<b>4,162</b>	(3,645)
Exchange differences	<b>(1,938)</b>	(3,151)
At 31st December	<b>42,966</b>	43,025

The movements in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

The deferred tax liabilities represented the followings:

	Depreciation HK\$'000	Fair value gains HK\$'000	Withholding tax HK\$'000	Total HK\$'000
At 1st January 2019	<b>1,906</b>	<b>74,560</b>	<b>3,979</b>	<b>80,445</b>
Recognised in the consolidated income statement	<b>5,987</b>	<b>24,140</b>	<b>(1,598)</b>	<b>28,529</b>
Exchange differences	–	<b>(1,971)</b>	<b>(87)</b>	<b>(2,058)</b>
At 31st December 2019	<b>7,893</b>	<b>96,729</b>	<b>2,294</b>	<b>106,916</b>
	Depreciation HK\$'000	Fair value gains HK\$'000	Withholding tax HK\$'000	Total HK\$'000
At 1st January 2018	355	68,648	4,043	73,046
Recognised in the consolidated income statement	1,551	9,146	122	10,819
Exchange differences	–	(3,234)	(186)	(3,420)
At 31st December 2018	1,906	74,560	3,979	80,445

## Notes to the Consolidated Financial Statements

### 33. DEFERRED TAXATION *(continued)*

The deferred tax assets represented the followings:

	Leases HK\$'000	Tax losses HK\$'000	Total HK\$'000
At 31st December 2018	–	37,420	37,420
Change in accounting policies <i>(Note 2.1(b)(i))</i>	2,283	–	2,283
At 1st January 2019	2,283	37,420	39,703
Recognised in the consolidated income statement	982	23,385	24,367
Exchange differences	–	(120)	(120)
At 31st December 2019	3,265	60,685	63,950

	Tax losses HK\$'000
At 1st January 2018	23,225
Recognised in the consolidated income statement	14,464
Exchange differences	(269)
At 31st December 2018	37,420

Deferred tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefits through the future taxable profits is probable. The Group did not recognise deferred tax benefits of approximately HK\$184,650,000 (2018: HK\$181,243,000) in respect of tax losses amounting to approximately HK\$843,326,000 (2018: HK\$834,057,000). Out of the total tax losses, approximately HK\$39,498,000 (2018: HK\$68,153,000) will expire within 5 years and the remaining can be carried forward indefinitely against future taxable income.

### 34. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

#### (a) Cash generated from operations

##### *Reconciliation of profit before taxation to net cash (outflow)/inflow from operating activities*

	2019 HK\$'000	2018 HK\$'000
Profit before taxation	48,888	50,137
Share of net profit of a joint venture	(5,553)	(9,965)
Finance income	(42,461)	(50,327)
Finance costs	31,612	21,919
Gain on disposal of subsidiaries	–	(1,395)
Loss on disposal of a joint venture	2,137	–
Net loss on disposal of property, plant and equipment	981	1,049
Net gain on disposal of right-of-use assets	(1,685)	–
Depreciation	87,568	28,957
Net (gain)/loss on disposal of investment properties	(376)	46
Fair value gains on investment properties	(63,172)	(35,378)
Amortisation of leasehold land and land use rights	1,565	1,623
Impairment of right-of-use assets	3,397	–
Provision for obsolete stock	472	–
Net (reversal of)/losses on impairment of financial assets	(357)	1,889
Operating profit before working capital changes	63,016	8,555
Decrease in inventories	29,295	10,886
(Increase)/decrease in loans and advances	(419,760)	783,655
Decrease/(increase) in trade receivables	34,075	(3,829)
Decrease in other receivables, prepayments and deposits	6,385	44,987
Decrease/(increase) in finance lease receivables	506	(1,431)
Decrease in financial assets at fair value through profit or loss	5	26,292
Increase/(decrease) in trade and other payables	83,255	(251,922)
Net cash (outflow)/inflow from operating activities	(203,223)	617,193

**34. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS** *(continued)*

**(b) Reconciliation of liabilities arising from financing activities**

	<b>Liabilities from financing activities HK\$'000</b>
At 31st December 2018	<b>269,315</b>
Change in accounting policies <i>(Note 2.1(b)(i))</i>	<b>343,043</b>
At 1st January 2019	<b>612,358</b>
Cash flows	<b>65,862</b>
Bank overdrafts	<b>1,262</b>
Acquisition – leases	<b>8,414</b>
Foreign exchange adjustments	<b>(4,462)</b>
At 31st December 2019	<b>683,434</b>
	Liabilities from financing activities HK\$'000
At 1st January 2018	647,287
Cash flows	(374,623)
Bank overdrafts	7,158
Foreign exchange adjustments	(10,507)
At 31st December 2018	<b>269,315</b>

### 35. CONTINGENT LIABILITIES

	2019 HK\$'000	2018 HK\$'000
Guarantees for mortgage facilities granted to certain property purchasers of the Group's properties ( <i>Note</i> )	5,034	7,098

*Note:* The Group has provided guarantees in respect of mortgage facilities granted by certain banks relating to mortgage loans arranged for certain purchasers of the Group's properties in the PRC. Pursuant to the terms of the guarantees, upon default in mortgage payments by these purchasers, the Group will be responsible for repaying the outstanding mortgage principals together with accrued interest and penalty owed by the defaulted purchasers to the banks whilst the Group will then be entitled to take over the legal title and possession of the related properties. Such guarantees will terminate upon issuance of the relevant property ownership certificates.

### 36. COMMITMENTS

**(a) Capital commitments for property, plant and equipment, leasehold land and land use rights and properties under development:**

	2019 HK\$'000	2018 HK\$'000
Contracted but not provided for	328,657	348,068

**(b) Commitments under operating leases**

The future aggregate minimum lease receivables under non-cancellable operating leases in respect of investment properties as follows:

	2019 HK\$'000	2018 HK\$'000
Not later than one year	20,975	21,926
Later than one year but not later than five years	17,595	25,067
More than five years	1,270	1,529
	<b>39,840</b>	<b>48,522</b>

**(c) Other commitments**

The Group undertakes underwriting obligations on initial public offering transactions. As at 31st December 2019, the underwriting obligations were approximately HK\$969,000 (2018: HK\$107,797,000).

### 37. RELATED PARTY TRANSACTIONS

- (a) Details of the key management compensation has been disclosed in Note 12.
- (b) As at 31st December 2019, loans from related parties of HK\$10,000,000 and HK\$5,135,000 were interest bearing at 5% per annum and 7% per annum respectively. They are denominated in Hong Kong dollars and Renminbi respectively and repayable within 1 year. The relevant interest amount for the year amounted to HK\$838,000.

As at 31st December 2018, loan from a related party of HK\$2,853,000 and amount due to a related party of HK\$5,250,000 were interest bearing at 7% per annum and interest-free respectively. They are denominated in Renminbi and repayable on demand. The relevant interest amount for the year amounted to HK\$175,000.

### 38. FINANCIAL RISK MANAGEMENT

#### 38.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: credit risk, liquidity risk, and market risk (including foreign exchange risk, interest rate risk and price risk). The Group has in place controls to manage these risks to an acceptable level without affecting its business. Management continually monitors the Group's risk management process to ensure that an appropriate balance between risk and control is achieved. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group's overall risk management function focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Financial risk management of the Group is carried out by the credit committee and finance department of the Group. The top management and the credit committee approve the Group's financial risk management policies. Credit committee and finance department undertake both regular and ad hoc reviews of risk management controls and procedures which are reported to the top management.

#### (a) Credit risk analysis

Credit risk is managed on a group basis. The Group's credit risk mainly arises from loans and receivables, deposits with banks, client trust bank balances and cash and bank balances.

The Group has no significant concentrations of credit risk. The maximum exposure to credit risk at the reporting date is the carrying value of each class and category of financial assets mentioned above. The Group has put in place policies to ensure that sales of goods and services and sales and lease of properties are made to customers with an appropriate credit history and the Group performs periodic credit evaluation of its customers. The directors are of the opinion that adequate loss allowance for trade and other receivables has been made in the consolidated financial statements.

The Group's cash at bank, bank deposits and client trust bank balances are placed with reputable banks. There were no recent history of default of cash and cash equivalents and short-term deposits from such financial institutions. Management does not expect any of these institutions to fail to meet its obligations.

As at year end, the collaterals furnished by the margin clients for security of their loans and advances from the Group are mainly listed securities, the majority of which are listed in Hong Kong. The total market value of securities amounted to HK\$5,589 million (2018: HK\$3,250 million) and margin loans receivable amounted to HK\$1,165 million (2018: HK\$745 million).

## 38. FINANCIAL RISK MANAGEMENT *(continued)*

### 38.1 Financial risk factors *(continued)*

#### (a) Credit risk analysis *(continued)*

At 31st December 2019, the gross amount of amounts due from clearing houses of HK\$249,653,000 (2018: HK\$186,595,000) has been offset by amounts due to clearing houses of HK\$192,498,000 (2018: HK\$62,298,000), resulting in a net amount of HK\$57,155,000 (2018: HK\$124,297,000) recognised in the consolidated balance sheet.

The maximum exposure to credit risk before collateral held or other credit enhancements approximates to the carrying value.

None of the financial assets that are fully performing has been renegotiated in 2019 and 2018.

#### (i) Impairment of financial assets

To measure the expected credit losses, trade receivables of brokerage business and loans and advances have been grouped based on shared credit risk characteristics.

The expected loss rates are based on potential default rate over past 36 months and the corresponding historical credit losses experienced within this period. The expected loss rates are adjusted to reflect current and forward-looking information on pledged assets of brokerage clients.

To measure the expected credit losses using simplified approach, trade receivables of other businesses have been grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are based on the payment profiles of sales over past one year and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the GDP and the unemployment rate of the countries in which it sells its goods and services to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

For other financial assets at amortised cost, the expected credit loss is based on the 12-month expected credit loss. It is the portion of lifetime expected credit loss that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime expected credit loss. Management has closely monitored the credit qualities and the collectability of the other financial assets at amortised cost and considers that the expected credit loss is insignificant.

### 38. FINANCIAL RISK MANAGEMENT *(continued)*

#### 38.1 Financial risk factors *(continued)*

##### *(b) Liquidity risk analysis*

Surplus cash is invested in interest bearing current accounts, time deposits, money market deposits and marketable securities by choosing instruments with appropriate maturities or sufficient liquidity to meet operational needs. At the reporting date, the Group held cash at bank and in hand of HK\$183,070,000 (2018: HK\$255,315,000) that are expected to readily generate cash inflows for managing liquidity risk.

The following analysis shows the contractual maturity of non-derivative financial liabilities:

	Less than one year 2019 HK\$'000	More than one year 2019 HK\$'000
Borrowings and interest payable	228,828	179,043
Trade and other payables	2,255,202	–
Lease payables	54,262	290,500
Financial guarantee contracts	5,034	–
	<b>2,543,326</b>	<b>469,543</b>
	Less than one year 2018 HK\$'000	More than one year 2018 HK\$'000
Borrowings and interest payable	115,422	179,748
Trade and other payables	3,489,888	15,563
Financial guarantee contracts	7,098	–
	<b>3,612,408</b>	<b>195,311</b>

The amounts disclosed above are the contractual undiscounted cash flows.

## 38. FINANCIAL RISK MANAGEMENT *(continued)*

### 38.1 Financial risk factors *(continued)*

#### **(c) Market risk analysis – foreign exchange risk**

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to Renminbi. Revenue and majority of its operating costs and cost of sales are in Hong Kong dollars and Renminbi basis. Save as disclosed below, no significant foreign exchange risk arising from future commercial transactions, recognised assets and liabilities and net investments in foreign operations is expected in the foreseeable future. The Group does not use any derivative financial instruments to hedge its foreign exchange risk.

At 31st December 2019, if Renminbi had strengthened/weakened by 5% against the Hong Kong dollars, with all other variables held constant, post-tax profit for the year would have been HK\$14,372,000 (2018: HK\$3,871,000) higher/lower, mainly as a result of foreign exchange gain on translation of Renminbi-denominated bank deposits and other receivables. There is no significant impact on equity as most of the FVOCI are denominated in Hong Kong dollars.

In determining the percentage of the currency fluctuation, the Group has considered the economic environments in which it operates.

#### **(d) Market risk analysis – interest rate risk**

The Group's significant interest-bearing assets are margin loans, cash at bank and bank deposits, and client trust bank balances, where the interest rate is low in the current environment.

The Group is also exposed to changes in interest rates which arises from its bank loans and amounts due to stockbroking clients. Borrowings obtained at variable rates expose the Group to cash flow interest rate risk which is partially offset by bank balances and deposits held at variable rates. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group's practice is to maintain a reasonable balance between variable and fixed rate borrowings. The Group has not used any derivatives to hedge its exposure to interest rate risk.

At 31st December 2019, if interest rates on margin loans, cash at bank, bank deposits and bank loans had been 50 basis points higher/lower with all other variables held constant, post-tax profit for the year would have been HK\$4,481,000 (2018: HK\$4,066,000) higher/lower. There is no impact on equity.

## 38. FINANCIAL RISK MANAGEMENT *(continued)*

### 38.1 Financial risk factors *(continued)*

#### *(e) Market risk analysis – price risk*

The Group is exposed to equity securities price risk because investments held by the Group are classified on the consolidated balance sheet either as FVOCI or as FVPL. The Group is not exposed to commodity price risk. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Group.

The Group's equity investments for trading purpose are mainly publicly traded or quoted in Hong Kong and the PRC. The Group's equity investments classified as FVOCI are mainly unlisted equity securities which the fair values were determined with reference to published price quotations in an active market of the underlying investments held by the investee.

The Group's equity exposures are mainly in long-term equity investments, which are reported as "FVOCI" set out in Note 20 to the consolidated financial statements. Equities held for trading purpose are included under "FVPL" set out in Note 26 to the consolidated financial statements.

At 31st December 2019, if the listed price, quoted price or fair value of each equity investment classified as FVPL and FVOCI had appreciated/depreciated by 10%, with all other variables held constant, post-tax profit for the year would have been HK\$2,000 (2018: HK\$2,000) higher/lower, mainly as a result of unrealised gains/losses on equity securities classified as FVPL. Equity would have been HK\$9,713,000 (2018: HK\$12,716,000) higher/lower, arising from gain/loss on equity securities classified as FVOCI.

### 38.2 Capital risk management

The Group's objectives when managing capital are to maintain a strong capital base to support the development of its business and to meet regulatory capital requirement at all times. The Group recognises the impact on shareholders' returns of the level of equity capital employed within the Group and seeks to maintain a balance between the returns for shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital.

Capital of the Group for regulatory and capital management purpose includes share capital, retained earnings, other reserves and subordinated liabilities. Capital is allocated to various business activities of the Group depending on the risk taken by each business unit and in accordance with the requirements of relevant regulatory bodies, taking into account current and future activities within a time frame.

The Group monitors capital on the basis of the gearing ratio, which is calculated as total debts divided by total shareholders' funds. The Group also monitors capital base of its subsidiaries to ensure compliance with relevant regulatory capital requirements of SFO. Management strives to maintain an optimal capital structure so as to achieve the Group's capital risk management objective as stated above. To achieve this, the Group may adjust the amount of dividend payout and other relevant factors.

**38. FINANCIAL RISK MANAGEMENT** *(continued)***38.2 Capital risk management** *(continued)*

The gearing ratios at 31st December 2019 and 2018 are as follows:

	2019 HK\$'000	2018 HK\$'000
Total borrowings ( <i>Note 30</i> )	377,611	269,315
Total equity	2,711,267	2,775,158
Gearing ratio	13.9%	9.7%

**38.3 Fair value estimation**

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1);
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2); and
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

The following table presents financial assets that are measured at fair value at 31st December 2019 and 2018. See Note 16 for disclosures of the investment properties that are measured at fair value.

	Level 1 2019 HK\$'000	Level 2 2019 HK\$'000	Total 2019 HK\$'000
FVPL			
– listed securities	17	–	17
FVOCI			
– unlisted securities	–	97,133	97,133
	17	97,133	97,150

**38. FINANCIAL RISK MANAGEMENT** *(continued)***38.3 Fair value estimation** *(continued)*

	Level 1 2018 HK\$'000	Level 2 2018 HK\$'000	Total 2018 HK\$'000
FVPL			
– listed securities	22	–	22
FVOCI			
– unlisted securities	–	127,158	127,158
	22	127,158	127,180

There were no transfers of financial assets between level 1 and level 2 fair value hierarchy classifications.

**(a) Financial instruments in level 1**

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

**(b) Financial instruments in level 2**

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

**(c) Financial instruments in level 3**

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

Specific valuation techniques used to value financial instruments include:

- Quoted market prices or dealer quotes for similar instruments; and
- Other techniques, such as discounted cash flow analysis, are used to determine fair value for the remaining financial instruments.

### 39. BALANCE SHEET AND RESERVES MOVEMENT OF THE COMPANY

#### (a) Balance sheet of the Company

	<i>Note</i>	2019 HK\$'000	2018 HK\$'000
<b>Non-current assets</b>			
Property, plant and equipment		158	308
Investments in subsidiaries		492,354	391,726
Financial assets at fair value through other comprehensive income		97,133	127,158
<b>Total non-current assets</b>		<b>589,645</b>	519,192
<b>Current assets</b>			
Other receivables, prepayments and deposits		669	2,210
Amounts due from subsidiaries		1,483,391	1,495,584
Cash and cash equivalents		15,261	15,216
<b>Total current assets</b>		<b>1,499,321</b>	1,513,010
<b>Current liabilities</b>			
Accruals and other payables		10,102	11,399
Borrowings		138,420	75,158
Amounts due to subsidiaries		214,108	176,321
<b>Total current liabilities</b>		<b>362,630</b>	262,878
<b>Net current assets</b>		<b>1,136,691</b>	1,250,132
<b>Net assets</b>		<b>1,726,336</b>	1,769,324
<b>Equity</b>			
Share capital		1,162,940	1,162,940
Reserves	39(b)	563,396	606,384
<b>Total equity</b>		<b>1,726,336</b>	1,769,324

The balance sheet of the Company was approved by the Board of Directors on 27th March 2020 and was signed on its behalf

**LO Yuen Yat**  
Director

**YEUNG Wai Kin**  
Director

### 39. BALANCE SHEET AND RESERVES MOVEMENT OF THE COMPANY *(continued)*

(b) Reserves movement of the Company

	Capital reserve HK\$'000	Financial assets at fair value through other comprehensive income reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1st January 2019	2,104	66,752	537,528	606,384
Loss for the year	–	–	(12,963)	(12,963)
Fair value loss on FVOCI	–	(30,025)	–	(30,025)
At 31st December 2019	2,104	36,727	524,565	563,396

	Capital reserve HK\$'000	Financial assets at fair value through other comprehensive income reserve HK\$'000	Retained earnings HK\$'000	Total HK\$'000
At 1st January 2018	2,104	124,224	512,281	638,609
Profit for the year	–	–	25,247	25,247
Fair value loss on FVOCI	–	(57,472)	–	(57,472)
At 31st December 2018	2,104	66,752	537,528	606,384

### 40. EVENTS AFTER THE BALANCE SHEET DATE

After the outbreak of Coronavirus Disease 2019 (the “COVID-19 outbreak”) in early 2020, a series of precautionary and control measures have been and continued to be implemented across the country/region. The Group will pay close attention to the development of the COVID-19 outbreak and evaluate its impact on the financial position and operating results of the Group. As at the date on which this set of consolidated financial statements were authorised for issue, the Group was not aware of any material adverse effects on the consolidated financial statements as a result of the COVID-19 outbreak.

### 41. APPROVAL OF THE FINANCIAL STATEMENTS

These consolidated financial statements were approved by the Board on 27th March 2020.