KAI YUAN HOLDINGS LIMITED

開源控股有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 1215)

# 2017

# ANNUAL REPORT

# CONTENTS



# CORPORATE INFORMATION

## BOARD OF DIRECTORS (THE "BOARD")

### Executive Directors

Mr. Xue Jian *(CEO)*
Mr. Law Wing Chi, Stephen

### Independent non-executive Directors

Mr. Tam Sun Wing
Mr. Ng Ge Bun
Mr. He Yi

## AUDIT COMMITTEE

Mr. Tam Sun Wing *(Chairman)*
Mr. Ng Ge Bun
Mr. He Yi

## REMUNERATION COMMITTEE

Mr. Tam Sun Wing *(Chairman)*
Mr. Law Wing Chi, Stephen
Mr. He Yi
Mr. Ng Ge Bun

## NOMINATION COMMITTEE

Mr. Ng Ge Bun *(Chairman)*
Mr. Law Wing Chi, Stephen
Mr. He Yi
Mr. Tam Sun Wing

## COMPANY SECRETARY

Mr. Law Wing Chi, Stephen

## STOCK CODE

1215

## WEBSITE

www.kaiyuanholdings.com

## PRINCIPAL REGISTRAR

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

## SHARE REGISTRAR

Tricor Tengis Limited
22nd Floor, Hopewell Centre
183 Queens's Road East
Hong Kong

## REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

## PRINCIPAL OFFICE IN HONG KONG

28th Floor, Chinachem Century Tower
178 Gloucester Road, Wanchai
Hong Kong

## AUDITORS

Ernst & Young
Certified Public Accountants
22nd Floor, Citic Tower
1 Tim Mei Avenue, Central
Hong Kong

## SOLICITORS

K&L Gates
44th Floor, Edinburgh Tower
The Landmark
15 Queen's Road Central
Hong Kong

## PRINCIPAL BANKER

The Hongkong & Shanghai Banking Corporation Limited

# CEO'S STATEMENT

On behalf of the Board of Kai Yuan Holdings Limited (the "Company") together with its subsidiaries (collectively referred to as the "Group" or "Kai Yuan"), I hereby present the results of the Group for the year ended 31 December 2017 (the "Year").

The Group recorded a profit of approximately HK$4.7 million attributable to owners of the Company for the Year, as compared to a loss of approximately HK$129.4 million for the year ended 31 December 2016 (the "Preceding Year"). The turnaround from loss to profit for the Year was mainly attributable to the absence of impairment loss on assets; the decline in finance costs of the Group; and the record of the one-off income tax credit due to decrease in corporate income tax rates in France. Further details will be discussed in the section headed Management Discussion and Analysis.

During the Year, revenue contributed by the Paris Marriott Champs Elysées Hotel from the hotel operation segment had shown signs of bottoming out as international visitors flocked back to Paris after the fear of security had settled, although it is still too early to ascertain when average room rate and revenue per available room will rebound to pre-terrorist attack level. In Hong Kong, the performance of the Butterfly on Waterfront Sheung Wan significantly rebounded during the Year as a result of strong influx of foreign visitors to Hong Kong.

The Board considered Hong Kong's mortgage loan market remained challenging as the US Federal Reserve had taken steps to tighten its monetary policy and to increase Federal rate. The Board would exercise utmost caution when conducting mortgage loan business in Hong Kong.

Looking forward, the Board anticipates business and investment outlook of 2018 to remain challenging. The Group will remain vigilant when conducting existing business segments whilst attentive to new investment opportunities.

In conclusion and on behalf of the Board, I would like to take this opportunity to express my gratitude to all shareholders, customers, employees, suppliers and business partners for their continuous support and encouragement.

On behalf of the Board

**Xue Jian**
*Executive director and Chief Executive Officer*

26 March 2018

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

### OVERVIEW

For the year ended 31 December 2017, revenue of the Group from continuing operations amounted to approximately HK$289.9 million, representing an increase of approximately 4.8% from approximately HK$276.6 million for the Preceding Year. The increase in revenue from continuing operations during the Year was mainly attributable to increase in revenue contributed by both the Paris Marriott Champs Elysées Hotel ("Paris Marriott Hotel") and the Butterfly on Waterfront Sheung Wan ("Butterfly on Waterfront") of the hotel operation segment, as well as the increase in loan interest income from the money lending segment. The Group recorded a profit for the Year from continuing operations of approximately HK$4.7 million, as compared to a loss of approximately HK$298.3 million for the Preceding Year. The turnaround from loss to profit from continuing operations for the Year was mainly attributable to i) the increase in revenue as described above; ii) the absence of impairment loss on assets; iii) the decline in finance costs during the Year after full repayment of loan from a related company in the Preceding Year; and iv) the record of one-off income tax credit accounted for the Year, arising from the deferred tax liability recognized for the acquisition of the Paris Marriott Hotel, due to the decrease in corporate income tax rates in France to 25% as from 1 January 2022.

The Group recorded a profit for the Year of approximately HK$4.7 million, as compared to a loss of approximately HK$129.4 million for the Preceding Year. Profit attributable to owners of the Company for the Year was approximately HK$4.7 million, as compared to a loss of approximately HK$129.4 million for the Preceding Year. The basic and diluted profit per share of the Company for the Year was HK0.04 cents, as compared to the basic and diluted loss per share of HK1.01 cents for the Preceding Year.

Total assets of the Group as at 31 December 2017 amounted to approximately HK$4,217.1 million, representing an increase of approximately 7.5% from approximately HK$3,922.1 million as at 31 December 2016. The increase in total assets of the Group was mainly attributable to increase in property, plant and equipment, principally due to appreciation of Euro against Hong Kong dollar, leading to increase in net carrying amount of the hotel property in France. Total liabilities of the Group as at 31 December 2017 amounted to approximately HK$1,997.1 million, representing an increase of approximately 4.9% from approximately HK$1,903.3 million as at 31 December 2016. The increase in total liabilities of the Group was mainly attributable to increase in interest-bearing bank borrowings balance of bank loan drawn in France, as the result of appreciation of Euro against Hong Kong dollar.

Segmental review of the Group's operations during the Year is as follows:

### HOTEL OPERATION

The Group recorded a revenue of approximately HK$287.1 million from the hotel operation segment, as compared to a revenue of approximately HK$275.6 million for the Preceding Year. The increase in revenue of the hotel operation segment for the Year was mainly attributable to increase in revenue contributed by both the Paris Marriott Hotel and the Butterfly on Waterfront. The Group recorded a loss of approximately HK$6.0 million in this segment for the Year, as compared to the loss of approximately HK$319.8 million for the Preceding Year. The decrease in loss was mainly attributable to absence of impairment loss on assets of this segment and decline in finance costs.

*Paris*

International tourists flocked back to Paris during the Year as threat of terrorists attacks appeared to ease and fear of travel safety faded. According to Reuters.com, the number of international visitor to the city of Paris and the wider Ile de France region rose to 33.8 million in 2017, an increase of approximately 9.4% as compared to that of 30.9 million in 2016. Paris tourism industry showed no signs of deceleration after election of the new president and despite labour strikes in response to proposals of labour law reform and bad weather during the Year. Notwithstanding the return of international visitors, the Paris Marriott Hotel remained struggling during the Year to recover from trough as the result of terrorist attacks that have occurred since 2015 which had driven down average room rate of the hotel, in particular to the reimbursement rate of the Marriott Rewards. The revenue from the Marriott Rewards accounted for a notable portion of revenue of the hotel. During the Year, the Paris Marriott Hotel had adopted adaptive and dynamic hotel room rates pricing strategy to attract bookings. The hotel had also successfully secured hotel rooms bookings from corporate customers. All these actions had contributed to increased occupancy of the hotel, while preserving RevPAR. Below is a comparison of the operational performance of the Paris Marriott Hotel during the Year against the Preceding Year:

| | **2017** | 2016 |
|---|---|---|
| Occupancy | **83.6%** | 80.2% |
| Average Room Rate | **€403** | €417 |
| RevPAR* | **€337** | €334 |

* Revenue per available room

*Hong Kong*

Despite the setback in 2016, Hong Kong tourism had resumed momentum in 2017 and achieved outstanding visitor numbers as more mainland travellers returned to the city. The Hong Kong Tourism Board reported an approximately 3.2% year-on-year growth in number of tourists travelling to Hong Kong in 2017, mostly contributed by increase in mainland travellers. Besides, absence of negative news or protests against parallel traders had also encouraged mainland tourists visiting Hong Kong. Furthermore, the China's economy remained fairly stable in 2017 and strengthening of Renminbi during the Year had also encouraged mainland Chinese to travel abroad. The sustained recovery in inbound tourism to Hong Kong drove up overall hotel room rates. During the Year, Butterfly on Waterfront continued their strong collaboration with online travel agencies to generate hotel room booking. As a result of increased demand, hotel room occupancy remained remarkable, and both average room rate and revenue per available room had shown strong rebound during the Year. Below is a comparison of operational performance of the Butterfly on Waterfront during the Year against the Preceding Year:

| | **2017** | 2016 |
|---|---|---|
| Occupancy | **99.7%** | 99.7% |
| Average Room Rate | **HK$873** | HK$797 |
| RevPAR* | **HK$870** | HK$795 |

* Revenue per available room

**MONEY LENDING**

Revenue from this segment amounted to approximately HK$2.8 million during the Year, representing an increase of approximately 190% from approximately HK$1.0 million for the Preceding Year. The Group recorded a profit of approximately HK$2.3 million from this segment for the Year, as compared to the profit of approximately HK$0.2 million for the Preceding Year.

As at 31 December 2017, the Group had no gross mortgage loan receivables (31 December 2016: HK$63.0 million).

# MANAGEMENT DISCUSSION AND ANALYSIS

## PROSPECTS

### HOTEL OPERATION

*Paris*

2017 was considered a transition year for the Paris Marriott Hotel where slow recovery on hotel occupancy and RevPAR as compared to 2016 was noted. The Board expects the outlook for 2018 will be more stable and positive where occupancy, average room rate and RevPAR of the Paris Marriott Hotel will continue to improve, if no significant security scare or terrorist attack occurs. However, it is too early to ascertain when average room rate and RevePAR will rebound to pre-terrorist attack level. Meanwhile, the Board notices that more new hotels will be opened in Paris, which will constitute a direct competition with the Paris Marriott Hotel. In the long-run, the French government has announced its plan to strengthen France's position as the first world tourism destination with an ambitious roadmap to benefit Paris as the capital city. Furthermore, Paris will be hosting mega events such as the Ruby World Cup in 2023 and the 2024 Olympics, which will undoubtedly attract international visitors. In the meantime, the Paris Marriott Hotel is actively facilitating and enhancing booking from tourists in Asia. The Board will also consider different improvement proposals on the Paris Marriot Hotel in order to enhance guest experience at the hotel.

*Hong Kong*

It is estimated that influx of foreign tourists shall continue in 2018 reaching 60.6 million, or approximately 3.6% year-on-year increase from 2017, according to the Hong Kong Tourism Board. Notwithstanding the increase in number of visitor arrivals, it is also expected that foreign tourists will on average spend shorter days in Hong Kong. Moreover, it is reported that an addition of eight to ten thousand hotel rooms will be injected into Hong Kong's hospitality market in the next two years. The combined effect might soften demand for hotel rooms in Hong Kong. The Board considers the performance of the Butterfly of Waterfront is now at peak level amongst past few years, therefore, provides a prime opportunity for the Group to liquidate the investment with favourable return. Accordingly, the Group signed a memorandum of understanding (the "MOU") to explore the possible disposal of the group of companies owing the hotel property and operation. Please refer to Acquisitions and Disposals below for further details.

### MONEY LENDING BUSINESS

The Board considers Hong Kong's mortgage loan market remained challenging, heavily competitive and with uncertain prospects. The Board would exercise utmost caution when conducting mortgage loan business in Hong Kong. In the meantime, the money lending business of the Group in Hong Kong remains at early stage and at a limited scale.

## LOOKING AHEAD

The Board considers investing in hotels tends to be a relatively low risk investment, whilst offering stable revenue stream and considerable capital gain potential. The Board will concurrently review our portfolio to restructure and enhance quality of assets held in the hotel operation segment.

Given the challenging and heavily competitive mortgage loan market in Hong Kong, the Board will conduct the Group's mortgage loan business in Hong Kong in a prudent manner.

Finally, the Board will continue to explore investment opportunities from new business segments with a view to enhancing and improving returns to our stakeholders.

# MANAGEMENT DISCUSSION AND ANALYSIS

## LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2017, total assets and net assets of the Group were approximately HK$4,217.1 million and HK$2,220.0 million respectively (31 December 2016: approximately HK$3,922.1 million and HK$2,018.8 million, respectively). The cash and bank balance of the Group as at 31 December 2017 were approximately HK$513.4 million, and were denominated in Hong Kong dollars, Euro, United States dollars and Renminbi (31 December 2016: approximately HK$539.7 million). The total current assets of the Group as at 31 December 2017 were approximately HK$585.5 million (31 December 2016: approximately HK$666.3 million). As at 31 December 2017, the Group had net current assets of approximately HK$511.5 million (31 December 2016: approximately HK$599.2 million). The Group adopted a conservative treasury approach and had tight controls over its cash management. As at 31 December 2017, the Group had outstanding bank loans and other borrowings amounted to approximately HK$1,602.6 million[1] (31 December 2016: approximately HK$1,524.4 million), none of which (31 December 2016: approximately HK$12.0 million) was due within one year. As at 31 December 2017, the Group's gearing ratio (total borrowings/total assets) was at approximately 38.0% (31 December 2016: approximately 38.9%). The Group constantly monitors its cash flow position, maturity profile of borrowings, availability of banking facilities, gearing ratio and interest rate exposure.

(1) Approximately HK$1,602.6 million (equivalent to €175,000,000) at the interest rates of 3 months EURIBOR plus 2.2% per annum.

## ACQUISITIONS AND DISPOSALS

With reference to the announcement of the Company dated 16 March 2018 (the "Announcement"), the Group and an independent third party (the "Possible Purchaser") entered into the MOU, pursuant to which the Company and the Possible Purchaser will engage in further discussions to explore the possible transactions, namely the proposed disposal of certain subsidiaries of the Group (the "Target Group") which owns a property and the business operated as a hotel in Sheung Wan, Hong Kong, together with the assignment of shareholder's loan due by the Target Group to the Company (the "Possible Disposal"). As of the date of this report, no formal agreement regarding the Possible Disposal had been reached. Please refer to the Announcement for further details of the MOU.

Save as disclosed above, the Group had no other material acquisition or disposal of subsidiaries and associated companies during the year.

## FOREIGN EXCHANGE EXPOSURE

The Group had operations in France, Luxembourg, PRC and Hong Kong where transactions and cash flow were denominated in local currencies, including Euro, Renminbi, and Hong Kong dollar. As a result, the Group was exposed to foreign currency exposures with respect to Euro and Renminbi, which mainly occurred from conducting daily operations and financing activities by local offices where local currencies were different from the Group. For the year ended 31 December 2017, the Group had not entered into any forward contracts to hedge the foreign exchange exposure. The Group managed its foreign exchange risks by performing regular review and monitoring of foreign exchange exposure. The Group would consider employing foreign exchange hedging arrangements when appropriate and necessary.

## CONTINGENT LIABILITIES

As at 31 December 2017, the Group had no significant contingent liabilities.

## PLEDGE ON THE GROUP'S ASSETS

As at 31 December 2017, cash deposits amounting to approximately HK$24.1 million (31 December 2016: approximately HK$19.3 million) and a building of the Group with a net carrying amount of approximately HK$3,040.6 million (31 December 2016: approximately HK$3,179.7 million) were pledged to secure bank loan granted to the Group.

## EMPLOYEES AND REMUNERATION

The Group had 8 employees as at 31 December 2017 (31 December 2016: 9). The total employee remuneration during the Year was approximately HK$11.7 million (31 December 2016: approximately HK$11.7 million). Remuneration policies were reviewed regularly to ensure that compensation and benefit packages were in line with the market level. In addition to basic remuneration, the Group also provided other employee benefits including bonuses, mandatory provident fund scheme, medical insurance scheme and participation to the share option scheme.

# DIRECTORS' PROFILE

## EXECUTIVE DIRECTORS

### Mr. Xue Jian

**Mr. Xue Jian**, aged 52, was appointed as a non-executive Director on 7 January 2009. Mr. Xue was re-designated as an executive Director on 6 January 2011, and appointed as chief executive officer on 1 June 2016. Mr. Xue also serves as director to a number of subsidiaries of the Company. Mr. Xue received his master's degree in business administration from Zhongnan University of Finance, Economics, Politics and Law. Mr. Xue has over two decades of experience in the steelmaking industry and in the commercial sector in the People's Republic of China (the "PRC"). He was the legal representative of Rizhao Steel Co., Limited, and is a director of Rizhao Steel Holding Group Co., Limited. The Rizhao Steel group of companies is one of the largest private steel makers in the PRC. Mr. Xue has also been appointed as the manager and legal representative of Jinghua Rigang Holding Group Co, Limited*. Apart from his engagement in private sector, Mr. Xue is active in the pursuit for public causes, holding positions included the deputy director of Center for Studies on China's Circular Economy and Environment, the senior consultant of China Health & Medical Development Foundation.

### Mr. Law Wing Chi, Stephen

**Mr. Law Wing Chi, Stephen**, aged 46, was appointed as an executive Director on 18 May 2011. He has also been appointed as members of the remuneration committee and nomination committee of the Company as well as chief financial officer, existing process agent and company secretary of the Company. Mr. Law also serves as director, company secretary and legal representative to a number of Group companies. Mr. Law has extensive experience in financial management and professional accounting. Prior to joining the Company, Mr. Law was the chief financial officer of Diamondlite Group, one of the leading jewelry manufacturers in the PRC. Having started his career as a professional accountant in an international accountancy firm, Mr. Law has undertaken key financial management positions in companies engaged in a variety of industries. Mr. Law is an associate member of the Hong Kong Institute of Certified Public Accountants and holds a Bachelor of Arts Degree in Accountancy from the City University of Hong Kong. Mr. Law was also appointed as an independent non-executive director of KML Technology Group Limited, the issued shares of which are listed on the Growth Enterprise Market of The Stock Exchange of Hong Kong Limited ("Stock Exchange") (Stock Code: 8065).

## INDEPENDENT NON-EXECUTIVE DIRECTORS

### Mr. Tam Sun Wing

**Mr. Tam Sun Wing**, aged 60, was appointed as an independent non-executive Director on 14 December 2001. He has also been appointed as chairman of the audit committee and the remuneration committee, and the member of the nomination committee of the Company. Mr. Tam is a professional accountant with more than 30 years of extensive audit and business advisory experience. Mr. Tam is practicing as a director of FTW & Partners CPA Limited. Mr. Tam is also a fellow member of the Hong Kong Institute of Certified Public Accountants, the Association of Chartered Certified Accountants and the Taxation Institute of Hong Kong, and also registered as a Certified Tax Advisor. Mr. Tam holds a Master Degree of Science in Corporate Governance and Directorship from the Hong Kong Baptist University.

### Mr. Ng Ge Bun

**Mr. Ng Ge Bun**, aged 60, was appointed as an independent non-executive Director on 30 September 2004. He has also been appointed as member of the audit committee and the remuneration committee and chairman of the nomination committee of the Company. Mr. Ng holds the degree in bachelor of science and degree in bachelor in laws. He obtained a postgraduate certificate in laws from The University of Hong Kong. He is a solicitor of the High Court of Hong Kong and currently serves as a partner of Tang, Lai & Leung Solicitors.

### Mr. He Yi

**Mr. He Yi**, aged 45, was appointed as an independent non-executive Director on 18 May 2011. He has been appointed as member of the audit committee, the remuneration committee, and the nomination committee of the Company. Mr. He is also an independent non-executive director of Sunshine Oilsands Limited, the issued shares of which are listed on the Stock Exchange (Stock Code: 2012). Mr. He is the chief executive officer of Shanghai YAOXIN Asset Investment and Management Limited. Prior to this, he was the general manager of Barclays Bank Shanghai Branch and has extensive experience in the financial industry. Mr. He started his career with the Credit Agricole Indosuez in Shanghai and was the head of treasury department and financial institutions department of First Sino Bank, the head of global markets China and deputy general manager of the Shanghai branch of Australia and New Zealand Banking Group Limited. Mr. He is a member of the Chinese Institute of Certified Public Accountants and a certified economist accredited by The Ministry of Personnel of China. Mr. He also holds a postgraduate master degree of economics from Fudan University, Shanghai, China.

* *For identification purpose only*

# CORPORATE GOVERNANCE REPORT

The Board and management of the Company are committed to maintaining high standards of corporate governance. Continuous efforts are made to review and enhance the Group's internal control policy and procedures in light of local and international developments to instill best practices.

The Board has set up procedures on corporate governance that comply with the requirements of the Listing Rules on corporate governance practices based on the principles and code provisions set out in the Corporate Governance Code (the "CG Code") contained in Appendix 14 to Listing Rules.

The Company had complied with the code provision of the CG Code throughout the year ended 31 December 2017 with the following deviations:

- A.2 The Company does not have a Chairman. No replacement appointment of the Chairman of the Board was made during the Year. The roles and responsibilities of the Chairman on governance matters of the Company were shared between the executive Directors during the Year. The Company will publish an announcement once an appointment has been made in accordance with the Listing Rules.

- A.4.1 Non-executive Directors are not appointed for a specific term. They are, however, subject to retirement by rotation and re-election at the annual general meetings of the Company pursuant to the Company's Bye-laws. As such, the Company considers that such provisions are sufficient to meet the underlying objectives of the relevant provisions of the CG Code.

- E.1.2 The Company does not have a Chairman. An executive Director, Mr. Law Wing Chi, Stephen was elected to chair the annual general meeting in accordance with the Company's Bye-Laws.

The Board will keep these matters under review.

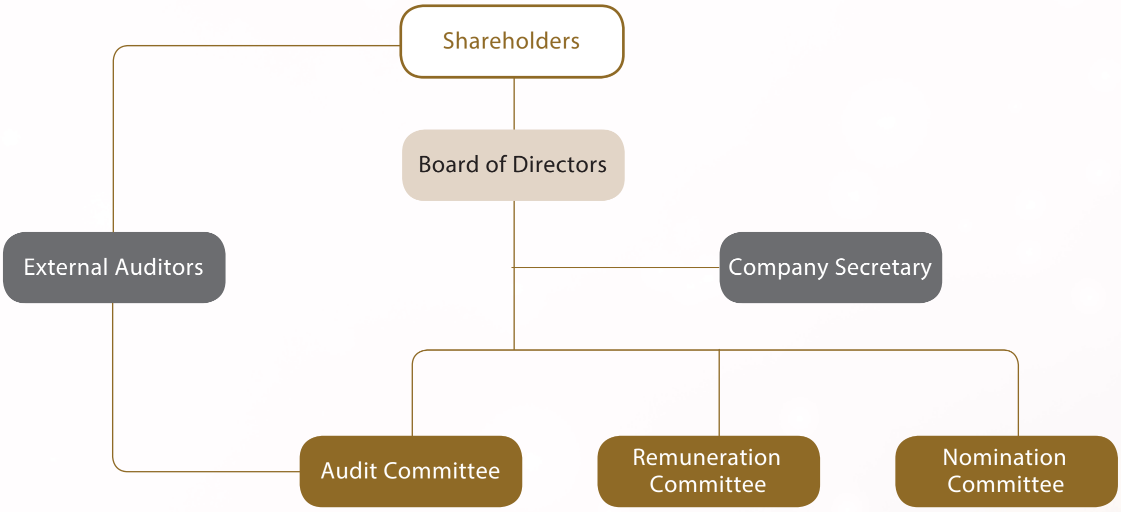
Following sustained development and growth of the Company, we will continue to monitor and revise the Company's corporate governance policies in order to ensure that such policies meet the general rules and standards required by the shareholders of the Company.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding securities transactions on terms no less exacting than the required standard of the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") set out in Appendix 10 to the Listing Rules. The Company has confirmed with all Directors that they have complied with the required standard set out in the Model Code and its code of conduct regarding Directors' securities transactions.

## THE BOARD AND CORPORATE GOVERNANCE STRUCTURE

The Board is responsible for directing the strategic objectives of the Group and overseeing the management of the business. The Directors are responsible for leadership and control of the Group. The overall corporate governance structure of the Company is depicted in the following chart:




## BOARD

### (A) BOARD COMPOSITION

The Board currently comprises two executive Directors and three independent non-executive Directors, serving the important function of guiding the management.

The Board members during the Year and up to the date of this annual report are as follows:

*Executive Directors*
Mr. Xue Jian *(CEO)*
Mr. Law Wing Chi, Stephen

*Independent non-executive Directors*
Mr. Tam Sun Wing
Mr. Ng Ge Bun
Mr. He Yi

No chairman was appointed during the year.

There are no relationships (including financial, business, family or other material/relevant relationship) among the Directors. All Directors of the Company are not appointed for a specific term. Although all Directors of the Company are not appointed for a specific term, all Directors, except the Chairman (if any), are subject to retirement by rotation and re-election at the annual general meetings of the Company pursuant to the Company's Bye-laws.

### (B) ROLE AND FUNCTION

The Board is responsible for formulating the strategic business development, reviewing and monitoring the business performance of the Group, as well as preparing and approving financial statements. The Directors, collectively and individually, are aware of their responsibilities to shareholders, for the manner in which the affairs of the Company are managed and operated. In the appropriate circumstances and as and when necessary, directors will consent to the seeking of independent professional advice at the Group's expense, ensuring that board procedures, and all applicable rules and regulations, are followed.

The Board gives clear directions as to the powers delegated to the management for the management and administration functions of the Group, in particular, with respect to the circumstances where management should report back and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Group. The Board will review those arrangements on a periodic basis to ensure that they remain appropriate to the needs of the Group.

The Board has the full support from senior management to discharge its responsibilities. Appropriate insurance cover for the Directors' and officers' liabilities in respect of legal actions against the directors and officers of the Company and its subsidiaries arising out of corporate activities of the Group has been arranged by the Company.

For the year ended 31 December 2017, the Board had held meetings and discussed following issues:

1. reviewed the internal control system and risk management of the Group;
2. discussed the annual results of the Group for the year ended 31 December 2016 and the interim results of the Group for the period ended 30 June 2017 respectively;
3. considered the recommendation of any final dividend for the year ended 31 December 2016 and the book close period, if any;
4. proposed re-election of Directors;
5. proposed the re-appointment of Ernst & Young as the auditors of the Company, and discussed the auditors remuneration for the annual audit;
6. reviewed the effects on the changes of the accounting standards and principles;
7. proposed the general mandates to issue and repurchase shares of the Company; and
8. approved the grant of share options under share option scheme.

**(C) MEETING RECORDS**

There were in total six board meetings and general meeting held for the year ended 31 December 2017.

The following set out the attendance record of Board meetings and general meeting held during the Year:

| | Attendance for meeting for the year ended 31 December 2017 | |
|---|---|---|
| **Board member** | **Board Meetings** | **General Meeting** |
| Mr. Xue Jian | 4/5 | 0/1 |
| Mr. Law Wing Chi, Stephen | 4/5 | 1/1 |
| Mr. Tam Sun Wing | 5/5 | 1/1 |
| Mr. Ng Ge Bun | 5/5 | 1/1 |
| Mr. He Yi | 5/5 | 1/1 |

There was one general meeting held for the year ended 31 December 2017.

**(D) INDEPENDENT NON-EXECUTIVE DIRECTORS**

During the year ended 31 December 2017, the Board had at all times met the requirements of the Listing Rules relating to the appointment of at least three independent non-executive Directors with at least one independent non-executive Director possessing appropriate professional qualifications, or accounting or related financial management expertise. The Company had not entered into any service contract with independent non-executive Directors. Independent non-executive Directors are not appointed for a specific term, but are subject to retirement by rotation and re-election in accordance with the Company Bye-laws.

The Company has received written annual confirmation from each independent non-executive Director of his independence pursuant to rule 3.13 of the Listing Rules. Based on the contents of such confirmation, the Company considers that the three independent non-executive Directors are independent.

The independent non-executive Directors bring a wide range of business and financial expertise, experiences and independent judgement to the Board. Through active participation in Board meetings, taking the lead in managing issues involving potential conflict of interests and serving on Board committees, all independent non-executive Directors make various contributions to the effective direction of the Company.

**(E) CORPORATE GOVERNANCE FUNCTIONS**

The Board is responsible for determining the corporate governance policy and performing the corporate governance duties including the followings:

(i) to develop and review the Company's policies and practices on corporate governance;

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

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

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

(v) to review the Company's compliance with Appendix 14 to the Listing Rules (Corporate Governance Code and Corporate Governance Report).

**(F) DIRECTORS' CONTINUOUS PROFESSIONAL DEVELOPMENT**

The Directors are committed to participate in continuous professional development. The Directors are regularly briefed on amendments and updates on the relevant laws, rules and regulations.

The Company had arranged, and all Directors namely, Mr. Xue Jian, Mr. Law Wing Chi, Stephen, Mr. Tam Sun Wing, Mr. Ng Ge Bun and Mr. He Yi had enrolled and attended relevant professional development courses to assist the Directors in discharging their duties. The Company had also arranged presentations to Directors that are conducted by external professional bodies in relation to updates and developments in the statutory and regulatory regime of the Group's business and the business environment.

**(G) DIRECTORS' RESPONSIBILITIES FOR FINANCIAL STATEMENTS**

The Directors acknowledge their responsibility for the preparation of financial statements of the Group, and to report on material uncertainties, if any, relating to events or conditions that may cast significant doubt upon the Group's ability to continue preparing the accounts on a going concern basis. The Directors do not aware of any material uncertainties relating to events or condition which may cast significant doubt upon the Company's ability to continue preparing the financial statements on the assumption that the Group will continue as going concern.

## CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The division of the responsibilities between the chairman and Chief Executive Officer is clearly established and set out in the code of corporate governance of the Company. The Chairman provides leadership for the Board and the Chief Executive Officer has overall chief executive responsibility for the Group's business development and day-to-day management generally. However, as no replacement appointment of the Chairman of the Board was made during the Year, the roles and responsibilities of the Chairman on governance matters of the Company were shared between the executive Directors during the Year.

## BOARD COMMITTEES

The Board has also established the following committees with defined terms of reference:

- Audit Committee
- Remuneration Committee
- Nomination Committee

Each Board Committee makes decisions on matters within its term of reference and applicable limits of authority. The terms of reference as well as the structure and membership of each committee will be reviewed from time to time.

**(A) AUDIT COMMITTEE**

The Audit Committee was established on 14 December 2001. It currently consists of three independent non-executive Directors.

Composition of Audit Committee for the year ended 31 December 2017 is as follow:

Mr. Tam Sun Wing *(Chairman)*
Mr. He Yi
Mr. Ng Ge Bun

*Role and function*

The Audit Committee is mainly responsible for:

1 discussing with the external auditors before the audit commences, the nature and scope of audit and ensure co-ordination where more than one audit firm is involved;

2 reviewing the Company's interim and annual financial statements before submission to, and providing advice and comments thereon to the Board of Directors;

3 considering the appointment of external auditors and their audit fees;

4 discussing problems and reservations arising from the interim and final audits and matters that the external auditors may wish to discuss (in the absence of the management, where necessary); and

5 assessing the risk environment and review internal control procedure manual of the Group.

*Meeting Record*

The Audit Committee met four times during the Year to discuss and approve the interim and annual results, and to review the internal control procedures of the Group.

The following set out the attendance record of Audit Committee meetings held for the year ended 31 December 2017:

| Committee member | Attendance for meeting held for the year ended 31 December 2017 |
|---|---|
| Mr. Tam Sun Wing | 4/4 |
| Mr. He Yi | 4/4 |
| Mr. Ng Ge Bun | 4/4 |

During the meetings, the Audit Committee discussed the following matters:

(1) Financial Reporting

The Audit Committee met with the external auditors to discuss the interim and annual financial statements and system of control of the Group. The auditors and the Chief Financial Officer were also in attendance to answer questions on the financial results.

Where there were questions on the financial statements and system of control of the Group reviewed by the Audit Committee, the management of the Company would provide breakdown, analysis and supporting documents to the Audit Committee members in order to ensure that the Audit Committee members were fully satisfied and make proper recommendation to the Board.

(2) External Auditors
The appointment of the external auditors and the audit fee were considered by the Audit Committee and recommendations were made to the Board on the selection of external auditors of the Company. The Audit Committee had also discussed on auditor's independence, objectivity and effectiveness of audit process.

(3) Internal Control
Review of the sufficiency and efficiency of the internal control system and risk management.

**(B) REMUNERATION COMMITTEE**

The Remuneration Committee was established on 21 March 2005. It currently consists of one executive Director and three independent non-executive Directors.

Composition of the Remuneration Committee for the year ended 31 December 2017:

Mr. Tam Sun Wing *(Chairman)*
Mr. Law Wing Chi, Stephen
Mr. Ng Ge Bun
Mr. He Yi

*Role and function*

The Remuneration Committee is mainly responsible for:

1. reviewing any significant changes in human resources policies and structure made in line with the then prevailing trend and business requirements;

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

3. determining the specific remuneration packages of all executive Directors and senior management, including benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment, and make recommendations to the Board of the remuneration of non-executive Directors;

4. considering factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration;

5. reviewing and approve performance-based remuneration by reference to corporate goals and objectives resolved by the board from time to time;

6. reviewing and approve the compensation payable to executive Directors and senior management in connection with any loss or termination of their office or appointment to ensure that such compensation is determined in accordance with relevant contractual terms and that such compensation is otherwise fair and not excessive for the Company;

7. reviewing and approve compensation arrangements relating to dismissal or removal of directors for misconduct to ensure that such arrangements are determined in accordance with relevant contractual terms and that any compensation payment is otherwise reasonable and appropriate;

8. ensuring that no Director or any of his associates is involved in deciding his own remuneration; and

9. advising the shareholders on how to vote in respect of any service contract of Director which shall be subject to the approval of shareholders (in accordance with the provisions of Rule 13.68 of the Listing Rules).

Where circumstances are considered appropriate, some Remuneration Committee decisions are approved by way of written resolutions passed by all the committee members.

For the year ended 31 December 2017, three Remuneration Committee meetings were held and the attendance record is as follow:

| Committee member | Attendance for meeting held for the year ended 31 December 2017 |
|---|---|
| Mr. Tam Sun Wing | 3/3 |
| Mr. Law Wing Chi, Stephen | 2/3 |
| Mr. Ng Ge Bun | 3/3 |
| Mr. He Yi | 3/3 |

During the meeting, the Remuneration Committee discussed the remuneration packages of Directors and senior management with reference to the prevailing market conditions. The Remuneration Committee had also discussed on remuneration policy and performance assessment for executive Directors.

## (C) NOMINATION COMMITTEE

The Nomination Committee was established on 13 April 2007. It currently consists of one executive Director and three independent non-executive Directors.

Composition of the Nomination Committee for the year ended 31 December 2017:

Mr. Ng Ge Bun *(Chairman)*
Mr. Law Wing Chi, Stephen
Mr. Tam Sun Wing
Mr. He Yi

*Role and function*

The Nomination Committee's terms of reference includes those specific duties as set out in the code provision A.5.2 of the CG Code. Pursuant to its terms of reference, the Nomination Committee is required, amongst other things, to review the structure, size and composition of the Board and make recommendations for changes as necessary, to identify individuals suitably qualified to become board members and select or make recommendations to the Board on the selection of, individuals nominated for directorships, to assess the independence of independent non-executive Directors, and to make recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors and succession planning for Directors in particular the Chairman and the Chief Executive Officer. The Nomination Committee should meet at least once a year and when the need arises.

The Nomination Committee is responsible for identifying, recruiting and evaluating new nominees to the Board and the assessment of the qualifications of the directors. The criteria adopted to select and recommend candidates for directorship includes the candidate's experience, professional knowledge, integrity, time commitment and other statutory or regulatory requirements.

For the year ended 31 December 2017, two Nomination Committee meetings were held and the attendance record is as follow:

| **Committee member** | **Attendance for meeting held for the year ended 31 December 2017** |
|---|---|
| Mr. Ng Gen Bun | 2/2 |
| Mr. Law Wing Chi, Stephen | 2/2 |
| Mr. Tam Sun Wing | 2/2 |
| Mr. He Yi | 2/2 |

During the meeting, the Nomination Committee reviewed the composition of the Board, it had also discussed on policy for nomination of Directors.

## SHAREHOLDERS' RIGHTS

It is the Company's responsibility to ensure shareholder's interest. To do so, the Company maintains on-going dialogue with shareholders to communicate with them and encourage their participation through annual general meetings or other general meetings.

Registered shareholders are notified by post for the shareholders' meetings. The notice of meeting contains the agenda, the proposed resolutions and a postal voting form.

Any registered shareholders are entitled to attend the annual and special general meetings, provided that their shares have been recorded in the Register of Shareholders.

Shareholders who are unable to attend a general meeting may complete and return to the Share Registrar the proxy form enclosed with the notice of meeting to give proxy to their representatives, another shareholder or Chairman of the meetings.

Shareholders or investors can enquire by putting their proposals with the Company through the following means:

Hotline no. : (852) 2804-2221

By post : 28th Floor, Chinachem Century Tower, 178 Gloucester Road, Wanchai, Hong Kong.

## PROCEDURES FOR SHAREHOLDERS TO CONVENE A SPECIAL GENERAL MEETING

Shareholder(s) can by written requisition to the Board or the secretary of the Company to require a special general meeting be called by the Board for the transaction of any business specified in such requisition. To raise such requisition, the shareholder(s) must have held at the date of deposit of such requisition not less than one-tenth of the paid up capital of the Company carrying right to vote at general meetings of the Company (Bye-law 58).

The meeting so requisitioned shall be held within two months after the deposit of such requisition. If within twenty-one (21) days of such requisition deposit the Board fails to proceed to convene such meeting, the requisitionists themselves may do so in accordance with section 74(3) of the Companies Act 1981 of Bermuda.

## PROCEDURES FOR SHAREHOLDERS TO PUT ENQUIRIES TO THE BOARD

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

The Company Secretary

Kai Yuan Holdings Limited

28th Floor, Chinachem Century Tower, 178 Gloucester Road, Wanchai, Hong Kong

Email : enquiry@kaiyuanholdings.com

Telephone No. : (852) 2804-2221

Facsimile No. : (852) 2723-8571

The company secretary will forward the shareholders' enquiries and concerns to the Board and/or relevant Board committees of the Company, where appropriate, to answer the shareholders' questions.

## PROCEDURES FOR PUTTING FORWARD PROPOSALS AT GENERAL MEETINGS BY SHAREHOLDERS

Subject to Section 79 of The Companies Act 1981 of Bermuda, it shall be the duty of the Company, on the requisition in writing of (i) either any number of members representing not less than one twentieth of the total voting rights of all the members having at the date of the requisition a right to vote at the meeting to which the requisition relates; or (ii) not less than one hundred members, at the expense of the requisitionists unless the Company otherwise resolves:

(a) to give to members of the Company entitled to receive notice of the next annual general meeting notice of any resolution which may properly be moved and is intended to be moved at that meeting; and

(b) to circulate to members entitled to have notice of any general meeting sent to them any statement of not more than one thousand words with respect to the matter referred to in any proposed resolution or the business to be dealt with at that meeting.

Notice of any such intended resolution duly signed by the shareholder concerned shall be deposited at the registered office of the Company not less than six weeks before the meeting (in the case of a requisition requiring notice of a resolution); and not less than one week before the meeting (in the case of any other requisition) together with a sum reasonably sufficient to meet the Company's expenses in sending the notice and circulating the statement submitted by the shareholder concerned.

Upon receiving the requisition, the Company would take appropriate actions and make necessary arrangements in accordance with the requirements under the provisions as stated in Sections 79 and 80 of the Companies Act I981 of Bermuda.

## AUDITORS REMUNERATION

It is the auditor's responsibility to form an independent opinion, based on their audit, on those financial statements and to report their opinion solely to the Company, as a body, in accordance with the Companies Ordinance, and for no other purpose. They do not assume responsibility towards or accept liability to any other person for the contents of the auditors' report.

Apart from the provision of annual audit services, the Group's external auditors also provided interim review of the Group's results and taxation advisory service of the Group.

For the year ended 31 December 2017, Ernst & Young, the external auditors provided following services to the Group:

| | **Ernst & Young** |
|---|---|
| | *HK$'000* |
| Audit services | 2,309 |
| Taxation services | 113 |

## RISK MANAGEMENT AND INTERNAL CONTROL

The Audit Committee assisted the Board to perform its duties to maintain an effective and sound internal control system for the Group. The committee reviewed the Group's procedures and workflow for the financial, operational and compliance, and also the risk assessment and its initiatives for business risks management and control. Recommendations will also be put forward to the Board for consideration and approval. During the Year, the Company engaged an independent internal control consultant to review risk management and internal control systems of the Group. The review report had been presented to the Audit Committee to review, nothing has come to the Audit Committee's or the Board's attention to believe that risk management and internal control systems of the Group are inadequate or ineffective. Please refer to the section headed "Risk Management and Internal Control Report" for further details.

## COMPANY SECRETARY

Mr. Law Wing Chi, Stephen, the company secretary for the year ended 31 December 2017, was a full time employee of the Company and has day-to-day knowledge of the Company's affairs. The company secretary reports to the Board and the chief executive officer, and has taken no less than 15 hours of relevant professional training.

## INVESTOR RELATIONS

There was no change in the Company's constitutional documents during the year ended 31 December 2017.

To enhance its transparency, the Company encourages dialogue with institutional investors and analysts. Extensive information about the Company's activities is provided in its interim and annual reports, which are sent to shareholders, analysts and interested parties. The Company also maintains regular communication with the media. The Company's news releases, announcements and publications are circulated timely, to all major news media. The same materials are also available on the Company's website. Media briefings are organized from time to time to relay details of the Group's latest business initiatives and market development plans. Regular meetings will also be held with institutional investors and analysts to disseminate financial and other information related to the Group and its business if needed. These activities keep the public aware of the Group's activities and foster effective communication.

For the year ended 31 December 2017, the following shareholder meeting was held by the Company:

| Date | Venue | Type of Meeting | Particulars | | Voting at the Meeting |
|---|---|---|---|---|---|
| 19 May 2017 | Board Room, Level 1 South Pacific Hotel, 23 Morrison Hill Road, Wanchai, Hong Kong | Annual General Meeting | 1. | To receive and consider audited financial statements for the year ended 31 December 2016 and the corresponding report of the Directors and auditors | By Poll |
| | | | 2. | To re-elect Directors and to authorise the Board to fix their remuneration | |
| | | | 3. | To re-appoint Ernst & Young as the auditors of the Company and authorise the Board to fix their remuneration | |
| | | | 4. | To approve the general mandates to issue and repurchase shares of the Company | |

## FINANCIAL CALENDAR FOR 2018

| Event | Date/Proposed Date |
|---|---|
| Announcement of 2017 annual results | Late March 2018 |
| Annual General Meeting | Around May 2018 |
| Announcement of 2018 interim result | Late August 2018 |

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## ABOUT THIS REPORT

Kai Yuan Holdings Limited (the "Kai Yuan" or "Company" and its subsidiaries (collectively referred to as the "Group") or "We") are pleased to present the 2017 Environmental, Social and Governance ("ESG") Report (the "Report") which outlines our approaches, strategies and practices in relation to the sustainability development. We carry out our business in a responsible manner such that we create long-term values for our stakeholders and contribute to make the world a better place.

The reporting period of this Report is from 1 January 2017 to 31 December 2017 (the "Reporting Period"). This Report mainly focuses on our core business segment – hotel operation including the Paris Marriott Hotel in Paris, France and the Butterfly on Waterfront in Hong Kong S.A.R., the People's Republic of China (collectively, the "Hotels").

This report has been prepared in accordance with disclosure requirements of the ESG Reporting Guide set out in Appendix 27 to the Rules Governing the Listing of Securities published by the Stock Exchange.

We sincerely welcome comments and suggestions with regard to this Report and our sustainability performance. Please feel free to provide your comments by email to enquiry@kaiyuanholdings.com.

### Stakeholders engagement

We maintain ongoing dialogues with our stakeholders including hotel guests, employees, shareholders, suppliers, community, governance and regulatory bodies. We actively collect their views so as to boost the growth of both the Group and stakeholders.

We believe that understanding the views and opinions of our stakeholders is of paramount importance to the long-term success and growth of an environmental protection enterprise. Sustainable development embraces not only our own ESG performance but also our relationship with stakeholders. As such, we are devoted to maintaining close and harmonious relationships with our stakeholders. Continuous engagement with our stakeholders, both formally and informally, enables us to recognise our own strengths and weaknesses to better sharpen our business strategies to respond to their needs and expectations, anticipate risks and strengthen key relationships. The information collected throughout the stakeholders engagement process serves as an underlying basis for the structure of this report. We will seek ways to step up our effort on stakeholders engagement and review the effectiveness constantly.

## A. ENVIRONMENTAL

### A1. Emissions

We recognize the potential impact to environment during the course of our operation and are committed to operating our businesses in an environmentally responsible manner. We work closely with the hotel manager of both the Paris Marriott Hotel and the Butterfly on Waterfront to restraint emission and continuously to improve our environmental performance; conserve resources by reducing unnecessary waste of electricity and water at source; and enhance environmental awareness of hotel staff and guests by providing training and warm reminder during our interaction with our guests. We also communicate our policies and requirements toward environmental protection to our contractors and suppliers to collaborate their effort in environmental protection.

*Compliance*

During the Reporting Period, we did not notice any non-compliance with relevant laws and regulations relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.

Our major source of emission includes (1) greenhouse gas which is generated from town gas and electricity; (2) garbage generated by our hotel guests and office; and (3) food waste generated during our food and beverage services at the Paris Marriott Hotel.

| Emission Type | Key Performance Indicators |
|---|---|
| ***Air emissions*[1]** | |
| Nitrogen oxides (NOx) | 30.96 kg |
| Sulphur Oxides (SOx) | 0.24 kg |
| Particulate matter (PM) | 0.18 kg |
| ***Greenhouse gas emissions*[1]** | |
| Total (Scope 1 & Scope 2) | 1,473.73 Tonnes of $CO_2$ equivalent |
| Scope 1 | 49.78 Tonnes of $CO_2$ equivalent |
| Scope 2 | 1,425.95 Tonnes of $CO_2$ equivalent |
| Intensity (per room night) | 16.23 kg of $CO_2$ equivalent/room night |
| Intensity (per gross floor area) | 26.52 kg of $CO_2$ equivalent/$m^2$ |
| ***Non-hazardous waste*** | |
| Total waste generated | 485.10 Tonnes |
| Paper | 9.80 Tonnes |
| Food waste | 31.46 Tonnes |
| Other general refuse | 443.84 Tonnes |
| Intensity (per room night) | 5.33 kg/room night |
| Intensity (per gross floor area) | 8.72 kg/$m^2$ |
| Waste to landfill | 453.64 Tonnes |
| Waste to recycle | 31.46 Tonnes |

Note 1: We do not generate hazardous waste (as defined by regulations in France and Hong Kong S.A.R.).
Note 2: All food waste was collected by recycler for recycling.
Note 3: Amount of other general refuse is estimated by considering the volume of rubbish collection bin and the frequency of collection.

[1] The air emission and greenhouse gas emission is calculated based on the methodology suggested in the "Steps for ESG Reporting – Appendix 2: Reporting Guidance on Environmental KPLs" published by the Stock Exchange.

**Measures to mitigate emissions and results achieved**

*Common measures*

Actively manage the use of electricity (as discussed in the "Energy Management" section below) to reduce wastes that create indirect greenhouse gas emission.

**How wastes are handled, reduction initiatives and results achieved**

***Paris Marriott Hotel***

- Works collaboratively with different wastes recycling partners to trim down the tonnage.
- Recycle organic wastes with a bio-wastes partners to turn wastes into compost and biogas. During the Reporting Period, 31.46 tonnes of food waste was recycled.
- Recycle used oil, lamps, batteries, metal, plastic, glass and paper through working with different recycling companies.

***Butterfly on Waterfront***

- Embraces green culture in support of 3Rs – Reduce, Reuse and Recycle at workplace.
- Encouraging recycle of resources and donation of unwanted items to charitable organizations.

## A2. Use of Resources

During the course of our business, we consume an array of resources ranging from electricity, water, town gas to food ingredients used in our food and beverage services. It is our policy to monitor each aspect closely to make sure we are operating in a cost effective, sustainable and responsible manner. During the Reporting Period, we have improved our energy management by implementing a number of energy saving initiatives to optimize our usage of resources:

### I. Energy

| Resource Type | Key Performance Indicators |
|---|---|
| ***Energy consumption*** | |
| In total | 6,818,856 kWh |
| In electricity | 3,132,934 kWh |
| In steam production | 1,989,238 kWh |
| In chilled water | 1,383,000 kWh |
| In non-renewable fuel | 313,684 kWh |
| Intensity (per room night) | 74.98 kWh/room night |
| Intensity (per gross floor area) | 122.52 kWh/$m^2$ |

The energy consumption is increased from 6,534,368 kWh to 6,818,856 kWh, the increase is mainly due to the net effect between: 1) the number of room night increased in 2017; and 2) the results achieved in our energy efficiency initiatives during the year.

**Energy efficiency initiatives and results achieved**

***Paris Marriott Hotel***

- Motion detectors were installed in back office area, public area restrooms and meeting rooms. LED lightings were installed at back offices and LED motion sensor lightings were installed in parking staircase.
- Programmable thermostats were adopted in guest rooms and meeting facilities.
- Window sensors were installed in all guest rooms to switch off air-conditioning system when windows are opened.

***Butterfly on Waterfront***

- LED lightings were installed in 70% of its guest rooms.
- Housekeeping will close curtains to avoid the guest room heating up by sunlight.
- Temperatures setting of water heater will be adjusted according to outdoor temperature.

*Common measures*

- Turn off unnecessary lighting and air-conditioning.
- Educating and inspiring associates and guests to conserve and preserve.
- Setting and maintaining standard indoor temperature.
- Review regularly our environmental policy and energy saving plan.
- Close monitoring of energy consumption and take necessary actions if irregular usage is noticed.

**II. Water**

Water is a basic necessity to all livings on earth but our access to water is limited. With rapid growth in global population and urbanization, water management is crucial to maintain our sustainability. For this reason, it is our policy to uphold best practices on water management throughout our operations. During the Reporting Period, we have improved our water management by implementing a number of water-saving initiatives to optimize our usage of resources:

| Resource Type | Key Performance Indicators |
|---|---|
| ***Water consumption*** | |
| Water usage | 32,466 $m^3$ |
| Intensity (per room night) | 0.36 $m^3$/room night |
| Intensity (per gross floor area) | 0.58 $m^3/m^2$ |
| Chilled water for cooling system | 144,930 $m^3$ |
| Intensity (per room night) | 1.59 $m^3$/room night |
| Intensity (per gross floor area) | 2.60 $m^3/m^2$ |

The water consumption is increased from 29,911 $m^3$ to 32,466 $m^3$, the increase is mainly due to the net effect between: 1) the number of room night increased in year 2017; and 2) the results achieved in our water efficiency initiatives during the year.

**Water efficiency initiatives and results achieved**

***Paris Marriott Hotel***

- Adoption of low-flow water faucets in guest rooms and common areas.
- Introduction of low-flow showerheads and tap aerators in all guest bathrooms.
- Installation of water-efficient commercial dishwasher and washing machines (except the washing machine in the kitchen).
- Installation of low-flow pre-risen spray valves in the kitchen.

***Butterfly on Waterfront***

- Introduction of water saving tips to staff and housekeeping service contractors to raise their awareness of water conservation.

*Common measures*

- Encouraging guests to save water and reuse linens and towels during their stay.
- Close monitoring on water consumption pattern and take necessary actions if irregular usage is noticed.

### A3. The Environment and Natural Resources

We do not notice our operations have significant impact on the environment and natural resources.

## B. SOCIAL

### B1. Employee

As at 31 December 2017, we had 8 employees working in Hong Kong and Luxembourg. Employees working in our hotels ("hotel staff") are employed and managed by the third party hotel managers in each hotel. However, we have worked closely with hotel managers to ensure they have consistent policies with us in handling employee matters and compliant with all relevant laws and regulations in the area they are operating.

It is our policy to value the differences between people and work diligently in providing equal opportunity and anti-discrimination. Our employment decision only based on one's working ability and disregard their gender, race, ethnicity, sexual orientation, disability, etc. We review our remuneration policies and packages annually to ensure our employee are fairly treated. We grant discretionary bonuses to qualified employees based on operational results and individual performance. Our employees are also entitled to medical insurance, participation in the mandatory provident fund and paid leaves.

*Compliance*

We are not aware of any material non-compliance with any relevant laws and regulations that have a significant impact on the Group relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, other benefits and welfare, occupational health and safety, child and forced labour and other laws and regulations related to employment during the Reporting Period.

### B2. Health and safety

We believe that productivity comes from healthy workforce. It is our policy to provide a healthy and safe work environment for our employees, we remind our employees to increase their awareness in occupational safety, provide them comfortable working environment and medical benefit.

*Compliance*

During the Reporting Period, no work related fatalities or injuries were recorded.

### B3. Development and training

It is our policy that all new employees are required to attend orientation training to ensure that they are familiar with our corporate values and goals and to ensure that the employees understand their role in our Group. Employees are also encouraged to attend seminars relevant to their position to enhance their work capability.

### B4. Labour standards

It is our policy that we are against the usage of child and forced labour, our recruitment policy forbids the hiring of child or forced labour and we will not purchase from any supplier who is doing so.

*Compliance*

There is no usage of child and forced labour noticed during the Reporting Period.

### B5. Supply chain management

Hotel operation involves a number of procurement categories including furniture, fixtures and equipment, hotel amenities, ingredient for food and beverages, office supplies and different kinds of maintenance and professional services. It is our policy to ensure our suppliers are operating in a sustainable manner. Therefore, we work closely with hotel managers to ensure responsible procurement is in place.

The Paris Marriott Hotel has in place a clear Supplier Code of Conduct and Sustainability Assessment Program to provide environmental and social guidelines to their suppliers, they work closely to push and encourage their suppliers to ensure the Supplier's Sustainability Policies are followed. In environmental aspect, the Paris Marriott Hotel has followed Marriott International's initiatives such as removing injected molded foam products, use sustainable seafood, use cage-free eggs, use pork free from gestation confinement crates for pork, ensure down and feather products are from humane sources. Regarding social aspects, the Paris Marriott Hotel follows Marriott's Global Employment and Human Rights principles and expect their suppliers to have safe and secure work environments, non-discrimination, avoid using forced and child labour. Supplier Screening Program is in place to monitor their suppliers to work in environmental and social responsible manner.

The Butterfly on Waterfront works closely with their business partners, suppliers and contractors to promote sustainability into their business practices. Supplier Code of Conduct is in place to set out the environmental and social requirements including labor practices, non-usage of forced and child labour, emission and resource usage, occupational health and safety, anti-corruption, etc. Suppliers are assessed regularly, with spot checks conducted from time to time, to ensure Supplier Code of Conduct and relevant laws and regulations are properly followed.

### B6. Product Responsibility

We believe that high quality service is essential to maintain long-term relationship with our customers. It is our policy to provide services with impeccable quality, both hotels have in place their respective "Standard Operation Procedures" and "Quality Assurance Program" to ensure guests satisfaction, and all hotel staff are well trained with respective standards and procedures to deliver high quality services.

*Guest satisfaction*

Paris Marriott Hotel is classified and recognised as a five-star hotel by the République Française (French Republic) honoring its outstanding service standards. In addition to actively collect information to understand customer experiences and in place of complaint handling procedures, Paris Marriott Hotel developed a guest feedback program – Guest Voice. A guest satisfaction system which integrates a shorter, simpler guest satisfaction survey with social media (reviews, posts, tweets, etc.) into a single user dashboard, enabling the hotel to take action on issues and concerns and facilitate a more timely response.

For Butterfly on Waterfront, it will continue to explore innovative communication channels to interact with hotel guests. The hotel regards guest feedback as the foundation for betterment of guest experience. Guest comments collected from different communication channels are duly followed up on a daily basis. The hotel also promotes open decision-making among staff members to identify the most effective way to operate the hotel.

*Personal data practice*

The hotels have guidance in handling personal data collection, use and share, as well as security of personal information we retained. Hotel staff are trained to increase their awareness towards privacy matters to ensure compliance with relevant personal data privacy regulations in France and Hong Kong.

*Compliance*

The Group is not aware of any material non-compliance with the relevant laws and regulations in this section.

**B7. Anti-corruption**

It is our policy and we believe it is of paramount importance that businesses are conducted in accordance with applicable rules, regulations and social standards. The virtue of integrity, honesty and fairness have been given the highest priorities. No such rules, regulations or standards should be traded in exchange for business benefits.

All hotel employees are required to stringently abide by respective anti-corruption guidelines and policies of the hotels where bribery in any form is prohibited. In cases when breaching of anti-corruption guidelines are spotted, disciplinary actions including immediate termination of employment and involvement of local authorities would be taken. Hotel managers will also provide trainings to hotel employees on issues of corruption on a regular basis.

*Compliance*

During the Reporting Period, no legal case was noticed against the hotels or their employees with regard to corruption issues.

**B8. Community**

It is our policy to encourage our employees to participate and support in community services in order to lead a healthy and balanced lifestyle. The Group will also participate in community and public welfare activities when possible. In 2017, we have made a donation of HK$1.2 million to South South Education Foundation to support their community initiatives.

**Corporate governance**

We believe that sound internal control, risk management and compliance systems are foundation for embracing good corporate governance. The Group is committed to upholding high standards of business integrity, honesty, ethics and transparency in our operations. For more details of our corporate governance practices, please refer to our Corporate Governance Report.

# RISK MANAGEMENT AND INTERNAL CONTROL REPORT

## RISK MANAGEMENT AND INTERNAL CONTROL

The Board of directors (the "Board") acknowledges its responsibility to establish, maintain and review a sound and effective risk management and internal control systems. An enterprise risk management (ERM) framework is in place to implement risk management and internal control effectively.

Our risk management and internal control systems are designed to manage rather than eliminate the risks of failure to achieve the Company's business objectives, and can only provide reasonable, but not absolute assurance against material misstatements or losses.

## RISK MANAGEMENT STRUCTURE

Effective risk management resides at all levels of the Group. Staff in different business units identify and manage risks during their daily operation, the management is responsible for identifying, assessing and responding to risk at strategic level. Reporting to the Board, the Audit Committee reviews and monitors major risks and effectiveness of risk management and internal control systems. Through this top down and bottom up approach, together with independent review by the independent internal control consultant, assisted the Group to manage its major risks in an effective manner.

| | **Risk Management Structure** |
|---|---|
| The Board | • Oversees the risk management and internal control systems;<br>• Determines the Group's business strategies and risk appetite;<br>• Reviews at least annually the effectiveness of the risk management and internal control systems; and<br>• Monitors the risk management and internal control systems in an on-going manner. |
| Audit Committee | • Oversees the evaluation and improvement process of risk management and internal control systems;<br>• Reviews the Group's risk register; and<br>• Reviews and approving the internal control review plan and review results. |
| Management and staff | • Identify and monitor all risks relevant to daily operations of the Group;<br>• Report to the Board and Audit Committee on the risks identified including strategic, operational, financial, reporting and compliance risks and its changes during the year;<br>• Implement and execute and on-going monitor risk management and internal control processes; and<br>• Develop and execute appropriate action plans to mitigate the risk identified and to resolve material internal control defects. |
| Internal audit function and external auditors | • Outsource the internal audit function to an independent internal control consultant;<br>• Review the effectiveness of the Group's risk management and internal control systems;<br>• The scope of the internal control review is risk-based and is reviewed by the Audit Committee;<br>• Communicate review result directly to the Audit Committee; and<br>• External auditor is also be able to communicate internal control issues they noticed during their audit to Audit Committee directly. |

## RISK MANAGEMENT PROCESS

The risk management process defined the procedures for identifying, assessing, responding and monitoring risks and their changes. The Management discusses regularly with each operating functions to collect their views towards the risks they have identified at operation level, and to strengthen their understanding to risk management at the Group's strategic view level to foster two way communication. Risk identification is a continuous and interactive process, major risks are communicate between the bottom and the top.


Significant risks are classified into one of the four categories: strategic, operational, financial, reporting and compliance. After identified all relevant risks, the Management assesses the potential impact and possibilities of the risks and prioritize the risks, appropriate internal control measures are then developed to mitigate the risks. Also, effectiveness of internal control measures and changes of risks are monitored in an on-going manner and are communicated to the Board and Audit Committee to allow their monitoring at the top level.

## MAIN FEATURES OF OUR RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS

### Maintain an effective internal control system at operational level

- Establish clear internal control policies and procedures, clearly define the responsibilities, authorities and accountabilities of each key positions;
- Establish code of conduct, explain the Group's requirements on integrity and ethical value to all staff;
- Establish whistle blowing mechanism, encourage employees to report incidents of misconduct or fraud;
- Establish appropriate level of information technology access rights, avoid leakage of price sensitive information; and
- Establish insider information disclosure policy, including reporting channels and responsible person of disclosure, unified response to external enquiries and obtain advices from professionals or The Stock Exchange of Hong Kong Limited, if necessary.

In evaluating the effectiveness internal control systems, the Board has considered the adequacy of resources, staff qualifications and experience, training programmes and budget of the accounting, internal audit and financial reporting functions.

### On-going risk monitoring at risk management level

The Management identifies and mitigates major risks according to the risk management process, the identified risks are summarized in risk register and submitted to the Board and Audit Committee for their review together with a 3-year internal control review plan to enable the Board and Audit Committee effectively monitor major risks of the Group and how the risks are managed. Major risks relevant to the Group are shown on pages 31 to 32 of this report.

### Independent review

The Group has appointed an independent internal control consultant to conduct an internal control review[1] for the year, the scope of review has covered the period from 1 January 2017 to 31 December 2017. The results of the internal control review has been submitted to the Audit Committee.

The Management has established remediation and improvement plan for internal control weaknesses identified. Nothing has come to the Audit Committee's or Board's attention to believe that risk management and internal control systems of the Group are inadequate or ineffective.

[1] *The internal control review performed by the internal control consultant does not constitute an assurance engagement made in accordance with the Hong Kong Standards on Auditing, Hong Kong Standards on Review or Hong Kong Standards on Assurance Engagement issued by the Hong Kong Institute of certified Public Accountants.*

# DIRECTORS' REPORT

The Directors present their annual report and audited financial statements for the year ended 31 December 2017.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the subsidiaries comprise hotel operation and money lending. The principal activities and other particulars of subsidiaries of the Group are set out in note 1 to the financial statements.

There were no significant changes in the nature of the Group's principal activities during the Year.

## BUSINESS REVIEW

Please refer to the Management Discussion and Analysis of this report for further details on review of the Group's business and particulars of important events affecting the Group during the Year, together with future development of the Group.

### Principal Risks and Uncertainties

The following are the principal risks and uncertainties facing by the Group's hotel operation segment and money lending business segment as determined by the Board. The content below is not intended to be an exhaustive list of all the risks and uncertainties that may arise.

*Hotel Operation*

(i) Operational risks

Notwithstanding the active monitoring and supervision of performance of the hotels by the Group, daily operations of the Group's hotels are delegated to respective hotel managers, pursuant to hotel management agreements signed with third-party hotel managers. Dependent on the ability of hotel managers, the failure of hotel managers to manage the hotels in an efficient and effective manner could have a material adverse effect on financial results of the Group.

Furthermore, if any of the hotel management agreements are terminated prior to their expiration, we may experience disruptions to our operations, and will then required to seek for replacement of hotel manager.

Finally, the Group's hotels are operated under brand names of respective hotel managers. As a result, the continuation on revenue generation relies on the success of the hotel managers in maintaining reputation and enhancing the recognition of their brands.

(ii) Competition

The Group owns hotels in France and Hong Kong in which the hospitality industry is highly competitive due to ongoing supply of new hotels and renovation of existing hotel properties. The intensity of competition is affected by a range of factors including political stability of countries where the hotels are located, regional and global economic conditions, convenience of location, interior design and amenities offered, as well as travel pattern of customers. The Group is committed to offer the best of our services and hotel experience to our guests.

(iii) Economic and market risks

The Group's business is exposed to risks of unfavourable movements in the global and regional economies and financial markets, in particular to the markets where our hotels are located. Change in economic conditions would lead to recession, inflation, deflation, currency fluctuations, availability of financing, interest rates and other factors that are beyond control of the Group. Occurrence of any of the above may reduce revenue, increase operating costs and lower asset value of the Group.

(iv) Terrorism, diseases and natural disasters

The Group's business could be adversely impacted by acts of God, wars, terrorist attacks, riots, diseases and other events beyond our control. The Group cannot predict the occurrence of these events. An increased threat of terrorism would affect travel patterns and reduce the number of travellers of different categories. All of the above events would eventually adversely affect the business and financial performance of our hotels.

(v) Indebtedness and interest rates

The Group maintains certain level of indebtedness to partly finance the hotel property investments. The indebtedness level could increase the vulnerability of the Group to adverse general economic or industry conditions, and restrict the Group from making strategic acquisitions or taking advantage of business opportunities. Hence, increase in interest rates could materially and adversely affect the results of the Group.

(vi) Foreign exchange fluctuations

The Group has hotel operation in France and Hong Kong in which revenue and expenses are denominated mainly in Euro, United States dollars and Hong Kong dollars. Therefore, the Group's financial results are exposed to foreign exchange risk as a result of fluctuation in currency exchange rates.

(vii) Information technology systems

The Group is dependent on information technology systems provided by the hotel managers and by other third parties to monitor and operate the day-to-day operations of the hotels. These systems include booking, check-in/check-out, management of rooms and collection of payment etc. Any disruption of these systems could result in the hotels failing to operate. Furthermore, operations of the above systems are also subject to information security and cyber threats. The Group together with the hotel managers will consistently review, maintain or upgrade these information technology systems when required to minimize system down-time and defend against cyber threats.

*Money Lending*

(i) Credit risk

A credit risk is the risk of default on a loan that may arise from borrowers failing to meet loan repayment obligation when due. To control credit risk, the Group requires borrowers to provide sufficient collaterals before mortgage loans will be granted we will also regularly monitor and review our loan portfolio. Notwithstanding these measures, the Group might still suffer from financial losses if the economic climate in Hong Kong changes adversely and abruptly so that net proceeds from disposal of collaterals might become insufficient to cover mortgage loan granted and loan interests receivable.

### Environmental Policies

We are attentive to consumption of natural resources and reduction of pollution during the course of managing our businesses. It is our goal to minimize our environmental impacts through recycling of materials, encouragement of resources savings and reduction of wastes. The Group is committed to ensure our compliance with relevant environmental protection laws and regulations. We also require our business partners to comply with relevant environmental protection laws and regulations. For further details on performance of the Group on environmental aspects during the Year, please refer to our Environmental, Social and Governance Report on pages 21 to 27.

### Compliance with Laws and Regulations

The Group requires operations of the Company and its subsidiaries to comply with the relevant laws and regulations in the territories in which we operate. During the Year, the Board was not informed of any events relating to violation of laws and regulations.

### Key Relationships with Employees, Customers and Suppliers

The Group has in place remuneration policies to ensure provision of adequate rewards to employees with recognised experience of the assigned roles and duties. The Group also provides other benefits including bonuses, mandatory provident fund scheme, medical insurance scheme and participation to share option scheme.

The Group places high priority on maintaining good relationship with our customers. We have in place a mechanism to keep track on customers' feedback and identify areas for improvement. Customer's complaints once acknowledged and reported will be dealt with timely, fairly and diligently.

To ensure efficient delivery of quality products and services to our customers, the Group recognises the importance of maintaining close and long-term relationship with suppliers. The Group will ensure fairness when conducting procurement activities and a consistent balance on qualities of products and services against value-for-money.

## RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2017 and the state of affairs of the Group and the Company at that date are set out in the audited financial statements on pages 42 to 111.

The Board does not recommend the payment of any dividend for the year ended 31 December 2017 (2016: nil).

## SUMMARY FINANCIAL INFORMATION

A summary of the results and the assets and liabilities of the Group for the last five financial years, as extracted from the audited financial statements and restated as appropriate is set out on page 112. This summary does not form part of the audited financial statements.

## PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the Year are set out in note 15 to the audited financial statements.

## SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital and share options during the Year are set out in notes 27 and 28 to the audited financial statements.

## PRE-EMPTIVE RIGHTS

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

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

During the Year, neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities.

## RESERVES

Details of movements in the reserves of the Company and the Group during the Year are set out in note 29 to the audited financial statements and in the consolidated statement of changes in equity, respectively.

## DISTRIBUTABLE RESERVES

As at 31 December 2017, the Company did not have any distributable reserves (2016: Nil).

## CHARITABLE CONTRIBUTIONS

Charitable contributions made by the Group during the year ended 31 December 2017 amounted to HK$1,200,000 (31 December 2016: Nil)

## MAJOR CUSTOMERS AND SUPPLIERS

During the Year, sales to the Group's five largest customers accounted for approximately 40% of the total sales for the Year, sales to the largest customer included therein amounted to approximately 23% of the total sales for the Year. Purchases from the Group's five largest suppliers accounted for approximately 35% of the total purchases for the Year, purchases from the largest supplier included therein amounted to approximately 12% of the total purchases for the Year.

None of the Directors of the Company or any of their associates or any shareholders (which, to the knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interest in the Group's five largest customers or suppliers disclosed above.

## DIRECTORS

The Directors during the Year were:

**Executive Directors:**
Mr. Xue Jian *(CEO)*
Mr. Law Wing Chi, Stephen

**Independent non-executive Directors:**
Mr. Tam Sun Wing
Mr. Ng Ge Bun
Mr. He Yi

The Directors, save and except for the chairman (if any), are subject to retirement by rotation and re-election at the annual general meeting of the Company in accordance with clauses 87(1) and 87(2) of the Company's Bye-laws.

## INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each of the independent non-executive Directors an annual confirmation of his independence pursuant to the guidelines set out in Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive Directors are independent.

## BIOGRAPHICAL DETAILS OF DIRECTORS

Biographical details of the Directors of the Company are set out on page 8 of the annual report.

## DIRECTORS' SERVICE CONTRACTS

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

## DIRECTOR'S REMUNERATION

Subject to shareholders' approval at annual general meeting authorising the Board, remuneration of Directors are determined by the Board with reference to Directors' duties, responsibilities and performance and the results of the Group.

## PERMITTED INDEMNITY PROVISION

The Bye-laws provides that the Directors of the Company for the time being acting in relation to any of the affairs of the Company, shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they may incur or sustain by or by reason of any act done. The Company has arranged for insurance cover on Directors' and officers' liabilities to provide appropriate cover for legal actions brought against its Directors and officers arising out of corporate activities of the Company.

## DIRECTORS' INTERESTS IN CONTRACTS

No Director or any entity connected with a Director was materially interested, either directly or indirectly, in any transaction, arrangement or contract of significance to the business of the Group to which the Company, or any of its subsidiaries was a party during the Year or the end of the Year.

## MANAGEMENT CONTRACTS

The Group entered into or maintained following management contracts for our hotels during the Year.

*Paris Marriott Hotel*

The Group maintained a management agreement (dated 16 June 1995), as amended from time to time (the "Marriott Agreement") in relation to management of Paris Marriott Hotel, with Marriott Hotels Manager France SAS ("Marriott"). The Marriott Agreement shall continue for thirty years after 1 January 2000. Marriott has option to renew the Marriott Agreement on the same terms and conditions for each of three successive periods of ten years.

The Group signed a hotel asset management services contract with Jones Lang LaSalle hotels & Hospitality Group in relation to the Paris Marriott Hotel on 26 September 2017. The contract period commenced on 1 November 2017 and will expire on 31 October 2019.

*Butterfly on Waterfront*

The Group maintained a hotel management agreement with Butterfly Hospitality (HK) Limited (formerly known as Butterfly Hotel and Serviced Apartment Group Limited) in relation to management of Butterfly on Waterfront. The management term commenced on 1 May 2014 and expiring on 30 April 2024.

No director of the Company had interests in the above contracts.

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

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

### Long positions – share options

| Name of Directors | Capacity | Number of options held | Number of underlying shares |
|---|---|---|---|
| Mr. Xue Jian | Beneficial owner | 127,780,000 | 127,780,000 |
| Mr. Law Wing Chi, Stephen | Beneficial owner | 10,000,000 | 10,000,000 |

Save as disclosed above, none of the Directors or chief executive has registered an interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of the SFO) that was required to be recorded pursuant to Section 352 of the SFO, or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

## DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section titled "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above and in the section titled "Share option scheme" below, at no time during the Year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Director or their respective spouses or minor children, or were any such rights exercised by them; or was the Company or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

## SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Further details of the Scheme are disclosed in note 28 to the audited financial statements.

## CONTRACT OF SIGNIFICANCE

No contract of significance to which the Company or any of 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.

## TAX RELIEF AND EXEMPTION

The Company is not aware of any tax relief and exemption available to shareholders by reason of their holding of the Company's securities.

## PERSONS HOLDING 5% OR MORE INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 2017, the following persons (other than the Directors or chief executive of the Company) had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept by the Company pursuant to Section 336 of the SFO:

### Long position in ordinary shares of HK$0.10 each of the Company

| Name of shareholders | Capacity | Number of ordinary shares held | Percentage of issued share capital |
|---|---|---|---|
| Mr. Du Shuang Hua [1] | Interest of controlled corporation | 708,000,000 | 5.54% |
| Happy Sino International Limited [1] | Beneficial interest | 708,000,000 | 5.54% |
| Mr. Zhang He Yi [1] | Beneficial interest | 1,400,000,000 | 10.96% |
| Ms. Lu Xiao Mei [2] | Interest of controlled corporation | 753,190,000 | 5.89% |
| Sincere Profit Group Limited [2] | Beneficial interest | 753,190,000 | 5.89% |
| Ga Leung Investment Company Limited [3] | Beneficial Interest | 1,866,666,666 | 14.61% |
| Mr. Sun Yong Feng [3] | Interest of controlled corporation | 1,866,666,666 | 14.61% |
| | Beneficial interest | 133,000,000 | 1.04% |
| Ms. Meng Ya [4] | Interest of spouse | 1,999,666,666 | 15.65% |
| Mr. Hu Yishi | Beneficial interest | 1,300,000,000 | 10.17% |

1 Mr. Du Shuang Hua and Mr. Zhang He Yi beneficially owns 85% and 15% interest respectively in the issued share capital of Happy Sino International Limited. Mr. Du Shuang Hua is deemed to be interested in the 708,000,000 shares held by Happy Sino International Limited under the provisions of the SFO.

2 Ms. Lu Xiao Mei beneficially owns 100% interest in the issued share capital of Sincere Profit Group Limited. Ms. Lu Xiao Mei is deemed to be interested in the 753,190,000 shares held by Sincere Profit Group Limited under the provisions of the SFO.

3 Mr. Sun Yong Feng beneficially owns 100% interest in the issued capital of Ga Leung Investment Company Limited. Mr. Sun Yong Feng is deemed to be interested in the 1,866,666,666 shares held by Ga Leung Investment Company Limited under the provisions of the SFO.

4 Ms. Meng Ya is the spouse of Mr. Sun Yong Feng. Ms. Meng Ya is deemed to be interested in the 1,999,666,666 shares in which Mr. Sun Yong Feng is interested.

Save as disclosed above, as at 31 December 2017, no person, other than the Directors and chief executive of the Company, whose interests or short positions are set out in the section "Directors' and chief executive's interests and short positions in shares, underlying shares and debentures" above, had registered any interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

## CORPORATE GOVERNANCE

Particulars of the Company's corporate governance practices are set out in the Corporate Governance Report on pages 9 to 20 of this report.

## CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

During the year, the Company did not have any connected transactions and continuing connected transactions which were subject to the disclosure requirements of the Listing Rules. The related party transactions as disclosed in note 37 to the audited financial statements did not fall under the definition of connected transactions or continuing connected transactions in the Listing Rules. The Company confirms that the Group has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

## SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this report, the Company had maintained a sufficient public float throughout the year ended 31 December 2017.

## EVENTS AFTER THE REPORTING PERIOD

Details of the significant events after the reporting period of the Group are set out in note 41 to the audited financial statements.

## EMOLUMENT POLICY

Emolument policy on the remuneration of the Directors and the employees of the Group is reviewed periodically and determined by reference to market terms, Company performance and individual qualifications and performance. The Company has adopted a share option scheme as an incentive to Directors and eligible employees, details of the share option scheme are set out in note 28 to the financial statements.

## AUDITORS

The financial statements have been audited by Ernst & Young ("EY"). EY shall retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of EY as auditors of the Company is to be proposed at the forthcoming annual general meeting.

On behalf of the Board

**Law Wing Chi, Stephen**
26 March 2018

# INDEPENDENT AUDITORS' REPORT

Ernst & Young
22nd Floor, CITIC Tower
1 Tim Mei Avenue
Central, Hong Kong

Tel: +852 2846 9888
Fax: +852 2868 4432
ey.com

**To the shareholders of Kai Yuan Holdings Limited**
*(Incorporated in Bermuda with limited liability)*

## OPINION

We have audited the consolidated financial statements of Kai Yuan Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 42 to 111, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

## BASIS FOR OPINION

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

## KEY AUDIT MATTERS

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

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

## KEY AUDIT MATTERS (continued)

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| *Impairment assessment of French Hotel CGU*<br>In assessing the fair value less costs of disposal, the Group involved external experts to perform an impairment assessment on the French hotel cash-generating unit ("French Hotel CGU") with a carrying amount of HK$3,040 million as at 31 December 2017 based on income approach. This matter was significant to our audit because the balance of French Hotel CGU was material to the consolidated financial statements. Further, the assessment process was complex and involved significant judgements.<br><br>Related disclosures about impairment of non-financial assets are included in note 3 *Significant accounting judgements and estimates* to the financial statements. | Our procedures included, among others, assessing the competence, capabilities and objectivity of its external experts and involving our valuation experts to assist us in evaluating the methodologies used by the Group's external experts to determine the fair value less costs of disposal as at 31 December 2017 and testing the assumptions, in particular, average daily rate per room, occupancy rate, discount rate, long-term growth rate and terminal capitalisation rate. |
| *Fair value of share options on grant date*<br>On 15 December 2017 (the "Grant Date"), the Company granted 145,780,000 share options to eligible participants, including the directors and other employees of the Group. The Group involved external experts to evaluate the fair value of the share options on the Grant Date based on binomial model. According to the valuation by external experts, the Group recognised an equity-settled share option expense of HK$2.2 million for the year ended 31 December 2017. This matter was significant to our audit because the equity-settled share option expense was material to the consolidated financial statements. Further, the valuation process was complex and involved significant judgements.<br><br>Related disclosures about fair value of share option on grant date are included in note 3 *Significant accounting judgements and estimates* and note 28 Share option scheme to the financial statements. | Our audit procedures included amongst others, assessing the competence, capabilities and objectivity of its external experts and involving our valuation specialists to assist us in evaluating the methodologies used by the Group's external experts to determine the fair value of the share options on the Grant Date and testing the assumptions, in particular, expected volatility, risk-free interest rate and exercise multiple. We also assessed the Group's disclosures in relation to the fair value of the share options on the Grant Date in the notes to the financial statements. |

## OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises 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 will 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 identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors of the Company 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 of the Company 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 of the Company either intend to liquidate the Group or to cease operations or have no realistic alternative but to do so.

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

## 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. Our report is made solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

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

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

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

- 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 Lawrence K. W. Lau.

**Ernst & Young**
*Certified Public Accountants*
Hong Kong

26 March 2018

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2017

| | Notes | **2017** **HK$'000** | 2016 HK$'000 |
|---|---|---|---|
| **CONTINUING OPERATIONS** | | | |
| REVENUE | 5 | **289,931** | 276,587 |
| Cost of sales | | **(216,025)** | (205,122) |
| Gross profit | | **73,906** | 71,465 |
| Other income and gains | 5 | **4,187** | 4,181 |
| Other expenses | 6 | **–** | (302,048) |
| Administrative expenses | | **(49,946)** | (47,295) |
| Finance costs | 7 | **(51,338)** | (69,814) |
| LOSS BEFORE TAX FROM CONTINUING OPERATIONS | 8 | **(23,191)** | (343,511) |
| Income tax credit | 11 | **27,871** | 45,202 |
| PROFIT/(LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS | | **4,680** | (298,309) |
| **DISCONTINUED OPERATIONS** | | | |
| Profit for the year from discontinued operations | 12 | **–** | 168,959 |
| PROFIT/(LOSS) FOR THE YEAR | | **4,680** | (129,350) |
| Attributable to: | | | |
| Owners of the Company | | **4,680** | (129,350) |
| Non-controlling interests | | **–** | – |
| | | **4,680** | (129,350) |
| PROFIT/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY | 14 | | |
| Basic and diluted | | | |
| – For profit/(loss) for the year | | **HK0.04 cents** | (HK1.01 cents) |
| – For profit/(loss) from continuing operations | | **HK0.04 cents** | (HK2.33 cents) |

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2017

| | Notes | **2017** **HK$'000** | 2016 HK$'000 |
|---|---|---|---|
| PROFIT/(LOSS) FOR THE YEAR | | **4,680** | (129,350) |
| OTHER COMPREHENSIVE INCOME/(LOSS) | | | |
| Other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods: | | | |
| Cash flow hedges: | | | |
| Effective portion of changes in fair value of hedging instruments arising during the year | 24 | **(1,433)** | (15,622) |
| Reclassification adjustments for loss included in the consolidated statement of profit or loss | 24 | **12,967** | 11,327 |
| Income tax effect | 26 | **(2,608)** | (249) |
| | | **8,926** | (4,544) |
| Exchanges differences: | | | |
| Exchange differences on translation of foreign operations | | **185,464** | (46,661) |
| Reclassification for foreign operations disposed of during the year | 12 | **–** | (155,523) |
| Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods | | **194,390** | (206,728) |
| OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF TAX | | **194,390** | (206,728) |
| TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR | | **199,070** | (336,078) |
| Attributable to: | | | |
| Owners of the Company | | **199,070** | (336,078) |
| Non-controlling interests | | **–** | – |
| | | **199,070** | (336,078) |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

| | Notes | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 15 | **3,601,397** | 3,225,433 |
| Intangible assets | 16 | **583** | 377 |
| Deferred tax assets | 26 | **29,688** | 29,948 |
| Total non-current assets | | **3,631,668** | 3,255,758 |
| CURRENT ASSETS | | | |
| Inventories | 17 | **1,102** | 1,141 |
| Trade receivables | 18 | **23,523** | 15,521 |
| Loans receivable | 19 | **–** | 63,000 |
| Other receivables and prepayments | 20 | **23,338** | 27,648 |
| Pledged deposits | 21 | **24,101** | 19,314 |
| Cash and cash equivalents | 21 | **513,396** | 539,721 |
| | | **585,460** | 666,345 |
| Total current assets | | **585,460** | 666,345 |
| Total assets | | **4,217,128** | 3,922,103 |
| CURRENT LIABILITIES | | | |
| Trade payables | 22 | **10,198** | 6,229 |
| Other payables and accruals | 23 | **51,964** | 38,891 |
| Receipt in advance | | **87** | 38 |
| Derivative financial instruments | 24 | **11,342** | 9,736 |
| Interest-bearing bank borrowings | 25 | **–** | 12,000 |
| Tax payable | | **362** | 206 |
| | | **73,953** | 67,100 |
| Total current liabilities | | **73,953** | 67,100 |
| NET CURRENT ASSETS | | **511,507** | 599,245 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **4,143,175** | 3,855,003 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2017

| | Notes | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|---|
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **4,143,175** | 3,855,003 |
| NON-CURRENT LIABILITIES | | | |
| Interest-bearing bank borrowings | 25 | **1,602,630** | 1,512,426 |
| Deferred tax liabilities | 26 | **309,707** | 303,584 |
| Derivative financial instruments | 24 | **10,839** | 20,237 |
| Total non-current liabilities | | **1,923,176** | 1,836,247 |
| Net assets | | **2,219,999** | 2,018,756 |
| EQUITY | | | |
| Equity attributable to owners of the Company | | | |
| Share capital | 27 | **1,277,888** | 1,277,888 |
| Reserves | 29 | **942,111** | 740,868 |
| | | **2,219,999** | 2,018,756 |
| Total equity | | **2,219,999** | 2,018,756 |

Approved on behalf of the board of directors:

**Xue Jian**
*Director*

**Law Wing Chi, Stephen**
*Director*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

| | Attributable to owners of the Company | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Share capital | Share premium* | Share option reserve* | Hedging reserve* | Exchange fluctuation reserve* | Retained profits/ (Accumulated losses)* | Other reserve* | Total equity |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| At 1 January 2016 | 1,277,888 | 1,027,637 | – | (19,806) | (28,178) | 97,293 | 13,050 | 2,367,884 |
| Loss for the year | – | – | – | – | – | (129,350) | – | (129,350) |
| Other comprehensive loss for the year: | | | | | | | | |
| Cash flow hedges, net of tax | – | – | – | (4,544) | – | – | – | (4,544) |
| Exchange differences on translation of foreign operations | – | – | – | – | (155,523) | – | – | (155,523) |
| Reclassification of translation reserve from other comprehensive loss to statement of the consolidated profit or loss upon disposal of subsidiaries | – | – | – | – | (46,661) | – | – | (46,661) |
| Total comprehensive income for the year | – | – | – | (4,544) | (202,184) | (129,350) | – | (336,078) |
| Reclassification of other reserve to profit or loss upon disposal of a subsidiary | – | – | – | – | – | – | (13,050) | (13,050) |
| At 31 December 2016 | 1,277,888 | 1,027,637 | – | (24,350) | (230,362) | (32,057) | – | 2,018,756 |
| At 1 January 2017 | **1,277,888** | **1,027,637** | **–** | **(24,350)** | **(230,362)** | **(32,057)** | **–** | **2,018,756** |
| Loss for the year | **–** | **–** | **–** | **–** | **–** | **4,680** | **–** | **4,680** |
| Other comprehensive loss for the year: | | | | | | | | |
| Cash flow hedges, net of tax | **–** | **–** | **–** | **8,926** | **–** | **–** | **–** | **8,926** |
| Exchange differences on translation of foreign operations | **–** | **–** | **–** | **–** | **185,464** | **–** | **–** | **185,464** |
| Total comprehensive income for the year | **–** | **–** | **–** | **8,926** | **185,464** | **4,680** | **–** | **199,070** |
| Equity-settled share option arrangements | **–** | **–** | **2,173** | **–** | **–** | **–** | **–** | **2,173** |
| At 31 December 2017 | **1,277,888** | **1,027,637** | **2,173** | **(15,424)** | **(44,898)** | **(27,377)** | **–** | **2,219,999** |

* These reserve accounts comprise the consolidated reserves of HK$942,111,000 (2016: HK$740,868,000) in the consolidated statement of financial position.

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

| | Notes | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| (Loss)/profit before tax: | | | |
| From continuing operations | | **(23,191)** | (343,511) |
| From discontinued operations | 12 | **–** | 166,824 |
| Adjustments for: | | | |
| Finance costs | 7 | **51,338** | 69,814 |
| Share of losses of associates | 12 | **–** | 44,456 |
| Loss on disposal of items of property, plant and equipment | | **193** | 201 |
| Gain on disposal of subsidiaries | 12 | **–** | (42,709) |
| Reclassification of translation reserve from other comprehensive income to statement of profit or loss upon disposal of subsidiaries | 12 | **–** | (155,523) |
| Reclassification of other reserve to profit or loss upon disposal of a subsidiary | 12 | **–** | (13,050) |
| Impairment of property, plant and equipment | 15 | **–** | 6,580 |
| Impairment of goodwill | | **–** | 295,362 |
| Depreciation | 15 | **40,967** | 40,527 |
| Amortisation of other intangible assets | 16 | **66** | 59 |
| Equity-settled share option expense | 28 | **2,173** | – |
| | | **71,546** | 69,030 |
| Decrease in inventories | | **39** | 156 |
| Increase in trade receivables | | **(8,002)** | (4,567) |
| Decrease/(increase) in loans receivable | | **63,000** | (63,000) |
| Increase in other receivables and prepayments | | **(964)** | (6,654) |
| Increase/(decrease) in trade payables | | **3,969** | (7,875) |
| Increase in other payables and accruals | | **11,866** | 6,150 |
| Increase/(decrease) in receipt in advance | | **49** | (238) |
| Cash generated from/(used in) operations | | **141,503** | (6,998) |
| France profit taxes refunded/(paid) | | **5,086** | (9,536) |
| Net cash flows generated from/(used in) operating activities | | **146,589** | (16,534) |

# CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

| | Notes | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|---|
| Net cash flows generated from/(used in) operating activities | | **146,589** | (16,534) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Purchases of items of property, plant and equipment | | **(10,773)** | (3,232) |
| Purchase of intangible assets | | **(205)** | (125) |
| Net proceeds from disposal of subsidiaries | 30 | **–** | 300,169 |
| Net cash flows (used in)/generated from investing activities | | **(10,978)** | 296,812 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Increase in pledged time deposits | | **(4,787)** | – |
| Repayment of bank loans | | **(137,000)** | (12,000) |
| Interest paid | | **(50,131)** | (48,573) |
| Net cash flows used in financing activities | | **(191,918)** | (60,573) |
| NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS | | **(56,307)** | 219,705 |
| Cash and cash equivalents at beginning of year | 21 | **539,721** | 331,098 |
| Effect of foreign exchange rate changes, net | | **29,982** | (11,082) |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | | **513,396** | 539,721 |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS | | | |
| Cash and cash equivalents as stated in the statement of cash flows | | **513,396** | 539,721 |

## 1. CORPORATE AND GROUP INFORMATION

The Company is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The address of the registered office of the Company is Canon's Court, 22 Victoria Street, Hamilton HM 12, Bermuda, and the principal place of business is 28th Floor, Chinachem Century Tower, 178 Gloucester Road, Wanchai, Hong Kong.

The principal activity of the Company is investment holding, and its subsidiaries are principally engaged in hotel operation and money lending.

### Information about subsidiaries

Particulars of the Company's subsidiaries are as follows:

| Name of subsidiary | Legal form of business | Place of incorporation or registration/place of operations | Issued and fully paid-up share/ registered capital | Percentage of issued share/registered capital attributable to the Company | | Principal activities |
|---|---|---|---|---|---|---|
| | | | | Direct % | Indirect % | |
| Crown Value Limited ("Crown Value") | Corporation | Hong Kong | HK$1 | 100 | – | Investment holding |
| Splendid Holdings S.à r.l. | Corporation | Luxembourg | EUR20,000 | – | 100 | Investment holding |
| MCE OpCo HoldCo | Corporation | France | EUR6,973,155 | – | 100 | Investment holding |
| MCE OpCo | Corporation | France | EUR8,835,915 | – | 100 | Hotel operation |
| Splendid PropCo | Corporation | France | EUR44,000,010 | – | 100 | Owner of hotel property |
| Leading Prospect Limited (i) | Corporation | British Virgin Islands | US$100 | 100 | – | Investment holding |
| A6 Limited | Corporation | Hong Kong | HK$10,000 | – | 100 | Owner of hotel property |
| Hotel de EDGE Limited | Corporation | Hong Kong | HK$100 | – | 100 | Hotel operation |
| Hotel de EDGE Management Limited | Corporation | Hong Kong | HK$100 | – | 100 | Hotel licence owner |
| Global Strategy International Limited (i) | Corporation | British Virgin Islands | US$100 | 100 | – | Investment holding |
| Kai Yuan Capital Limited | Corporation | Hong Kong | HK$10,000 | – | 100 | Money lending |

## 1. CORPORATE AND GROUP INFORMATION (continued)

### Information about subsidiaries (continued)

Particulars of the principal subsidiaries are as follows: (continued)

| Name of subsidiary | Legal form of business | Place of incorporation or registration/place of operations | Issued and fully paid-up share/ registered capital | Percentage of issued share/registered capital attributable to the Company | | Principal activities |
|---|---|---|---|---|---|---|
| | | | | Direct % | Indirect % | |
| Universal Yield Investments Limited [i] | Corporation | British Virgin Islands | US$1 | 100 | – | Investment holding |
| Deluxe (China) Limited | Corporation | Hong Kong | HK$1 | – | 100 | Investment holding |
| Shanghai Mianwang Investment Consulting Co., Limited (上海綿旺投資諮詢有限公司) [ii] | Wholly-owned foreign enterprise | The PRC/Mainland China | US$3,000,000 | – | 100 | Investment holding |
| Ever Profit Management Limited | Corporation | Hong Kong | HK$1,000,000 | 100 | – | Service provision |
| Charter Best Investments Limited [i] | Corporation | British Virgin Islands | US$1 | 100 | – | Investment holding |
| Time Park Limited | Corporation | Hong Kong | HK$100 | – | 100 | Investment holding |

(i) No audited financial statements have been prepared for these entities for the year ended 31 December 2017, as these entities were not subject to any statutory audit requirement under relevant rules and regulations in their jurisdiction of incorporation.

(ii) Not audited by Ernst & Young, Hong Kong or another member firm of the Ernst & Young global network.

## 2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for derivative financial instruments which have been measured at fair value. A disposed company held for sale is stated at the lower of its carrying amounts and fair value less costs to sell as further explained in note 2.1. These financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

## 2.1 BASIS OF PREPARATION (continued)

### Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31 December 2017. A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

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

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

| | |
|---|---|
| Amendments to HKAS 7 | *Disclosure Initiative* |
| Amendments to HKAS 12 | *Recognition of Deferred Tax Assets for Unrealised Losses* |
| Amendments to HKFRS 12 included in *Annual Improvements to HKFRSs 2014-2016 Cycle* | *Disclosure of Interests in Other Entities: Clarification of the Scope of HKFRS 12* |

None of the above amendments to HKFRSs has had a significant financial effect on these financial statements. Disclosure has been made in note 31(b) to the financial statements upon the adoption of amendments to HKAS 7, which require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

## 2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

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

| | |
|---|---|
| Amendments to HKFRS 2 | *Classification and Measurement of Share-based Payment Transactions*[1] |
| Amendments to HKFRS 4 | *Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*[1] |
| HKFRS 9 | *Financial Instruments*[1] |
| Amendments to HKFRS 9 | *Prepayment Features with Negative Compensation*[2] |
| Amendments to HKFRS 10 and HKAS 28 (2011) | *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3] |
| HKFRS 15 | *Revenue from Contracts with Customers*[1] |
| Amendments to HKFRS 15 | *Clarifications to HKFRS 15 Revenue from Contracts with Customers*[1] |
| HKFRS 16 | *Leases*[2] |
| Amendments to HKAS 40 | *Transfers of Investment Property*[1] |
| HK(IFRIC)-Int 22 | *Foreign Currency Transactions and Advance Consideration*[1] |
| HK(IFRIC)-Int 23 | *Uncertainty over Income Tax Treatments*[2] |
| *Annual Improvements 2014-2016 Cycle* | Amendments to HKFRS 1 and HKAS 28[1] |

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 No mandatory effective date yet determined but available for adoption

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

While the adoption of some of the new and revised HKFRSs may result in changes in accounting policies, none of these HKFRSs is expected to have a significant impact on the Group's results of operations and financial position, except the followings:

HKFRS 16, issued in May 2016, replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement contains a Lease*, HK(SIC)-Int 15 *Operating Leases - Incentives* and HK(SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group expects to adopt HKFRS 16 from 1 January 2019. The Group is currently assessing the impact of HKFRS 16 upon adoption, and is considering whether it will choose to take advantage of the practical expedients available and which transition approach and reliefs will be adopted. As disclosed in note 35 to the financial statements, at 31 December 2017, the Group had future minimum lease payments under non-cancellable operating leases in aggregate of approximately HK$2,023,000. Upon adoption of HKAS 16, certain amounts included therein may need to be recognised as new right-of-use assets and lease liabilities. Further analysis, however, will be needed to determine the amount of new rights of use assets and lease liabilities to be recognised, including, but not limited to, any amounts relating to leases of low-value assets and short term leases, other practical expedients and reliefs chosen, and new leases entered into before the date of adoption.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Investments in associates

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

The Group's investments in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

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

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

When investments in associates are classified as held for sale, it is accounted for in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

### Fair value measurement

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

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Fair value measurement** (continued)

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

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

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

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

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

**Impairment of non-financial assets**

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

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to the statement of profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Related parties

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

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

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

  (ii) has significant influence over the Group; or

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

or

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

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

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

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

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

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

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

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Property, plant and equipment and depreciation**

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5, as further explained in the accounting policy for "Non-current assets and disposal groups held for sale". The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

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

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

| | **Useful life** *(years)* | **Depreciation rate** |
|---|---|---|
| Hotel properties | | |
| – Leasehold land under financial leases | Lease term | Lease term |
| – Freehold land | Not depreciated | Not depreciated |
| – Building in Hong Kong | 50 | 2% |
| – Building in Paris | 10 - 94 | 1.06% - 10% |
| Buildings | 18 - 27 | 3.33 - 5.28% |
| Leasehold improvements | 2 - 5 | 20 - 50% |
| Motor vehicles | 5 | 18 - 20% |
| Office equipment | 5 - 6 | 15 - 20% |

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

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Non-current assets and disposal groups held for sale

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

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

### Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised basis over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

The useful lives of intangible assets are shown as follows:

| | **Useful life** *(years)* |
|---|---|
| Software | 3-5 |

### Leases

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Investments and other financial assets**

*Initial recognition and measurement*

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss and loans and receivables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

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

*Subsequent measurement*

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

*Loans and receivables*

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

**Derecognition of financial assets**

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

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

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

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Impairment of financial assets**

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

*Financial assets carried at amortised cost*

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

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

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial liabilities

*Initial recognition and measurement*

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

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

The Group's financial liabilities include trade payables, other payables, derivative financial instruments, and interest-bearing bank borrowings.

*Subsequent measurement*

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

*Financial liabilities at fair value through profit or loss*

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

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

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

*Loans and borrowings*

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Derecognition of financial liabilities**

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

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

**Offsetting of financial instruments**

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

**Derivative financial instruments and hedge accounting**

*Initial recognition and subsequent measurement*

The Group uses derivative financial instruments, such as interest rate swaps, to hedge its interest rate risk. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

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

For the purpose of hedge accounting, hedges are classified as:

- fair value hedges when hedging the exposure to changes in the fair value of a recognised asset or liability or an unrecognised firm commitment; or

- cash flow hedges when hedging the exposure to variability in cash flows that is either attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction, or a foreign currency risk in an unrecognised firm commitment; or

- hedges of a net investment in a foreign operation.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting, the risk management objective and its strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the Group will assess the hedging instrument's effectiveness of changes in the hedging instrument's fair value in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Derivative financial instruments and hedge accounting** (continued)

*Initial recognition and subsequent measurement* (continued)

Hedges which meet the strict criteria for hedge accounting are accounted for as follows:

*Fair value hedges*

The change in the fair value of a hedging derivative is recognised in the statement of profit or loss as other expenses. The change in the fair value of the hedged item attributable to the risk hedged is recorded as a part of the carrying amount of the hedged item and is also recognised in the statement of profit or loss as other expenses.

For fair value hedges relating to items carried at amortised cost, the adjustment to carrying value is amortised through the statement of profit or loss over the remaining term of the hedge using the effective interest rate method. Effective interest rate amortisation may begin as soon as an adjustment exists and shall begin no later than when the hedged item ceases to be adjusted for changes in its fair value attributable to the risk being hedged. If the hedged item is derecognised, the unamortised fair value is recognised immediately in the statement of profit or loss.

When an unrecognised firm commitment is designated as a hedged item, the subsequent cumulative change in the fair value of the firm commitment attributable to the hedged risk is recognised as an asset or liability with a corresponding gain or loss recognised in the statement of profit or loss. The changes in the fair value of the hedging instrument are also recognised in the statement of profit or loss.

*Cash flow hedges*

The effective portion of the gain or loss on the hedging instrument is recognised directly in other comprehensive income in the hedging reserve, while any ineffective portion is recognised immediately in the statement of profit or loss.

Amounts recognised in other comprehensive income are transferred to the statement of profit or loss when the hedged transaction affects profit or loss, such as when hedged financial income or financial expense is recognised or when a forecast sale occurs. Where the hedged item is the cost of a non-financial asset or non-financial liability, the amounts recognised in other comprehensive income are transferred to the initial carrying amount of the non-financial asset or non-financial liability.

If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover (as part of the hedging strategy), or if its designation as a hedge is revoked, or when the hedge no longer meets the criteria for hedge accounting, the amounts previously recognised in other comprehensive income remain in other comprehensive income until the forecast transaction occurs or the foreign currency firm commitment is met.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Derivative financial instruments and hedge accounting (continued)

*Current versus non-current classification*

Derivative instruments that are not designated as effective hedging instruments are classified as current or non-current or separated into current and non-current portions based on an assessment of the facts and circumstances (i.e., the underlying contracted cash flows).

- Where the Group expects to hold a derivative as an economic hedge (and does not apply hedge accounting) for a period beyond 12 months after the end of the reporting period, the derivative is classified as non-current (or separated into current and non-current portions) consistently with the classification of the underlying item.

- Embedded derivatives that are not closely related to the host contract are classified consistently with the cash flows of the host contract.

- Derivative instruments that are designated as, and are effective hedging instruments, are classified consistently with the classification of the underlying hedged item. The derivative instruments are separated into current portions and non-current portions only if a reliable allocation can be made.

### Inventories

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

### Cash and cash equivalents

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

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

### Provisions

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Income tax**

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

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

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

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

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

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

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

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Income tax** (continued)

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

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

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

**Revenue recognition**

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

(a) from the rendering of services:

- hotel operation income is recognised upon the provision of the services and the usage by guests of the hotel facilities;

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

(c) rental income, on a time proportion basis over the lease terms.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Share-based payments

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

The cost of equity-settled transactions with employees for grants is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using a binomial model, further details of which are given in note 28 to the financial statements.

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

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

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

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

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### Other employee benefits

*Pension scheme*

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

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

### Borrowing costs

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

### Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting. Proposed final dividends are disclosed in the notes to the financial statements.

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

### Foreign currencies

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

Differences arising on settlement or translation of monetary items are recognised in the statement of profit or loss with the exceptions of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in other comprehensive income until the net investment is disposed of, at which time the cumulative amount is reclassified to the statement of profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Foreign currencies** (continued)

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

The functional currencies of certain subsidiaries and associates of the Group are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into Hong Kong dollars at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into the presentation currency at the weighted average exchange rates for the year.

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

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

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

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

**Judgements**

There is no significant effect on the amounts recognised in the financial statements arising from the judgements, apart from those involving estimations, made by management in the process of applying the Group's accounting policies.

*Classification between investment properties and owner-occupied properties*

The Group determines whether a property qualifies as an investment property, and has developed criteria in making that judgement. Investment property is a property held to earn rentals or for capital appreciation or both. Therefore, the Group considers whether a property generates cash flows largely independently of the other assets held by the Group. Some properties comprise a portion that is held to earn rentals or for capital appreciation and another portion that is held for use in the production or supply of goods or services or for administrative purposes. If these portions could be sold separately or leased out separately under a finance lease, the Group accounts for the portions separately. If the portions could not be sold separately, the property is an investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. Judgement is made on an individual property basis to determine whether ancillary services are so significant that a property does not qualify as an investment property.

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

### Estimation uncertainty

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

*Depreciation of items of property, plant and equipment*

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. Useful lives are determined based on management's past experience with similar assets and estimated changes in technologies. If the estimated useful lives changed significantly, adjustment of depreciation will be provided in the future year. The carrying amount of property, plant and equipment at 31 December 2017 was approximately HK$3,601,397,000 (2016: approximately HK$3,225,433,000). More details are given in note 15.

*Impairment of non-financial assets*

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The Group involved external experts to perform an impairment assessment on the French hotel cash-generating unit ("French Hotel CGU") with a carrying amount of HK$3,040,000,000 as at 31 December 2017 based on income approach to estimate its fair value less costs of disposal. The assessment is based on key assumptions, such as average daily rate per room, occupancy rate, discount rate, long-term growth rate and terminal capitalisation rate.

*Deferred tax assets*

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management estimation is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. The carrying value of deferred tax assets relating to recognised tax losses at 31 December 2017 was HK$24,595,000 (2016: HK$22,897,000). The amount of unrecognised tax losses at 31 December 2017 was HK$181,701,000 (2016: HK$160,304,000). Further details are contained in note 26 to the financial statements.

*Estimation of fair value of share options on grant date*

The fair value of share options on grant date is estimated by a binominal model. Key assumptions, such as expected volatility, risk-free interest rate and exercise multiple, are disclosed in note 28 to the financial statements.

## 4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has two reportable operating segments (2016: two) as follows:

(a) the hotel operation segment engaged in operation of hotel businesses in Hong Kong and France;

(b) the money lending segment engaged in providing mortgage loans in Hong Kong.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/loss, which is a measure of adjusted profit/loss before tax from continuing operations. The adjusted profit/loss before tax from continuing operations is measured consistently with the Group's profit before tax from continuing operations except that interest income and corporate expenses are excluded from such measurement.

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

| **Year ended 31 December 2017** | **Hotel operation** *HK$'000* | **Money lending** *HK$'000* | **Total** *HK$'000* |
|---|---|---|---|
| **Segment revenue** | | | |
| Sales to external customers and revenue from continuing operations | **287,108** | **2,823** | **289,931** |
| **Segment results** | **(5,973)** | **2,281** | **(3,692)** |
| *Reconciliation:* | | | |
| Bank interest income | | | **2,335** |
| Corporate and other unallocated expenses | | | **(21,834)** |
| Loss before tax from continuing operations | | | **(23,191)** |

| Year ended 31 December 2016 | Hotel operation *HK$'000* | Money lending *HK$'000* | Total *HK$'000* |
|---|---|---|---|
| **Segment revenue** | | | |
| Sales to external customers and revenue from continuing operations | 275,614 | 973 | 276,587 |
| **Segment results** | (319,753) | 246 | (319,507) |
| *Reconciliation:* | | | |
| Bank interest income | | | 1,466 |
| Corporate and other unallocated expenses | | | (25,470) |
| Loss before tax from continuing operations | | | (343,511) |

## 4. OPERATING SEGMENT INFORMATION (continued)

### Geographical information

*(a) Revenue from external customers*

| | **2017** | 2016 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Hong Kong | **31,784** | 27,404 |
| France | **258,147** | 249,183 |
| | **289,931** | 276,587 |

The revenue information of continuing operations above is based on the locations of the customers.

*(b) Non-current assets*

| | **2017** | 2016 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| France | **3,041,180** | 2,663,493 |
| Hong Kong | **515,350** | 518,378 |
| Mainland China | **45,450** | 43,939 |
| | **3,601,980** | 3,225,810 |

The non-current asset information from continuing operations above is based on the locations of the assets and excludes deferred tax assets.

### Information about major customers

Revenue of approximately HK$67,405,420 (2016: HK$49,976,052) accounting for 23.5% (2016: 18.1%) of the Group's revenue was derived from a single customer for the year ended 31 December 2017.

## 5. REVENUE, OTHER INCOME AND GAINS

Revenue represents the income earned from rendering of hotel services in Hong Kong and France and the interest income earned from the money lending business by providing mortgage loans in Hong Kong during the year.

An analysis of revenue, other income and gains from continuing operations is as follows:

| | **2017** **HK$'000** | 2016 HK$'000 |
|---|---|---|
| **Revenue** | | |
| Rendering of hotel services | **287,108** | 275,614 |
| Interest income | **2,823** | 973 |
| | **289,931** | 276,587 |
| **Other income** | | |
| Bank interest income | **2,335** | 1,466 |
| **Gains** | | |
| Foreign exchange gains | **392** | – |
| Rental income | **1,333** | 1,763 |
| Others | **127** | 952 |
| | **4,187** | 4,181 |

## 6. OTHER EXPENSES

An analysis of other expenses from continuing operations is as follows:

| | Note | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|---|
| Impairment of goodwill | | – | 295,362 |
| Impairment of property, plant and equipment | 15 | – | 6,580 |
| Foreign exchange losses | | – | 106 |
| | | – | 302,048 |

## 7. FINANCE COSTS

| | Note | 2017<br>HK$'000 | 2016<br>HK$'000 |
|---|---|---|---|
| Interest on loans from a related company | 37 | – | 21,082 |
| Interest on bank loans | | 38,371 | 37,405 |
| Fair value losses, net: | | | |
| Cash flow hedges (transfer from equity) | | 12,967 | 11,327 |
| | | 51,338 | 69,814 |

## 8. LOSS BEFORE TAX FROM CONTINUING OPERATIONS

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

| | Notes | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|---|
| Cost of hotel operation | | **175,058** | 164,595 |
| Depreciation | | **40,967** | 40,527 |
| Amortisation of intangible assets | | **66** | 59 |
| Impairment of property, plant and equipment | | **–** | 6,580 |
| Impairment of goodwill | | **–** | 295,362 |
| Minimum lease payments under operating leases: | | | |
| Buildings | | **1,619** | 1,572 |
| Auditors' remuneration | | **2,309** | 2,400 |
| Employee benefit expense (excluding director' and chief executive's remuneration) *(note 9)* | | | |
| Wages, salaries and other benefits | | **3,371** | 3,308 |
| Equity-settled share option expense | | **119** | – |
| Foreign exchange difference, net | *6* | **(392)** | 106 |
| Fair value losses, net: | | | |
| Cash flow hedges (transfer from equity) | *7* | **12,967** | 11,327 |
| Bank interest income | *5* | **(2,335)** | (1,466) |
| Loss on disposal of items of property, plant and equipment | *6* | **193** | 201 |

## 9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Listing Rules, section 383(1) (a), (b), (c) and (f) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of information about Benefits of Directors) Regulation, is as follows:

| | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|
| Fees | **1,000** | 1,084 |
| Other emoluments: | | |
| Salaries, allowance and benefits in kind | **4,290** | 6,290 |
| Performance related bonuses | **990** | 990 |
| Equity-settled share options expense | **2,054** | – |
| Pension scheme contributions | **36** | 44 |
| | **7,370** | 7,324 |
| | **8,370** | 8,408 |

## 9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (continued)

During the year, certain directors were granted share options, in respect of their services to the Group, under the share option scheme of the Company, further details of which are set out in note 28 to the financial statements. The fair value of such options, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above directors' and chief executive's remuneration disclosures.

**Executive directors, non-executive directors and the chief executive:**

| 2017 | Fees | Salaries, allowance and benefits in kind | Performance related bonuses | Equity-settled share option expense | Pension scheme contributions | Total remuneration |
|---|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Executive directors: | | | | | | |
| Mr. Xue Jian | 200 | 2,600 | 600 | 1,905 | 18 | 5,323 |
| Mr. Law Wing Chi, Stephen | 200 | 1,690 | 390 | 149 | 18 | 2,447 |
| | 400 | 4,290 | 990 | 2,054 | 36 | 7,770 |
| Independent non-executive directors: | | | | | | |
| Mr. Tam Sun Wing | 200 | – | – | – | – | 200 |
| Mr. Ng Ge Bun | 200 | – | – | – | – | 200 |
| Mr. He Yi | 200 | – | – | – | – | 200 |
| | 600 | – | – | – | – | 600 |
| | 1,000 | 4,290 | 990 | 2,054 | 36 | 8,370 |

## 9. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (continued)

| 2016 | Fees | Salaries, allowance and benefits in kind | Performance related bonuses | Pension scheme contributions | Total remuneration |
|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Executive directors: | | | | | |
| Mr. Xue Jian | 200 | 2,600 | 600 | 18 | 3,418 |
| Mr. Law Wing Chi, Stephen | 200 | 1,690 | 390 | 18 | 2,298 |
| | 400 | 4,290 | 990 | 36 | 5,716 |
| Non-executive director: | | | | | |
| Mr. Hu Yishi* | 84 | 2,000 | – | 8 | 2,092 |
| | 84 | 2,000 | – | 8 | 2,092 |
| Independent non-executive directors: | | | | | |
| Mr. Tam Sun Wing | 200 | – | – | – | 200 |
| Mr. Ng Ge Bun | 200 | – | – | – | 200 |
| Mr. He Yi | 200 | – | – | – | 200 |
| | 600 | – | – | – | 600 |
| | 1,084 | 6,290 | 990 | 44 | 8,408 |

* Mr. Hu Yishi tendered his resignation as a non-executive director and the chairman of the Company, with effect from 1 June 2016.

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

## 10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included two directors (2016: three directors), details of whose remuneration are set out in note 8 above. Details of the remuneration for the year of the remaining three (2016: two) highest paid employees who are neither a director nor chief executive of the Company are as follows:

| | **2017** | 2016 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Salaries, allowances and benefits in kind | **2,233** | 1,843 |
| Performance related bonuses | **350** | 240 |
| Equity-settled share option expense | **104** | – |
| Pension scheme contributions | **63** | 36 |
| | **2,750** | 2,119 |

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

| | **Number of employees** | |
|---|---|---|
| | **2017** | 2016 |
| Nil to HK$1,000,000 | **2** | 1 |
| HK$1,000,001 to HK$1,500,000 | **1** | 1 |

During the year, share options were granted to three non-directors and non-chief executive highest paid employees in respect of their services to the Group, further details of which are included in the disclosures in note 28 to the financial statements. The fair value of such options, which has been recognised in the statement of profit or loss over the vesting period, was determined as at the date of grant and the amount included in the financial statements for the current year is included in the above non-director and non-chief executive highest paid employees' remuneration disclosures.

## 11. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2016: 16.5%) on the estimated assessable profits arising in Hong Kong during the year.

The provision for PRC current income tax was based on the statutory rate of 25% (2016: 25%) of the assessable profits of the Group's subsidiaries in Mainland China as determined in accordance with the relevant income tax rules and regulations of the PRC Corporate Income Tax Law, which came into effect on 1 January 2008.

The provision of French current income tax was based on the rate of 33.33% (2016: 33.33%) of the estimated assessable profits arising during the year. During the year, National Assembly approved the tax rates which are effective from 1 January 2018 in France as follows:

| | |
|---|---|
| For year 2018 | 28% for the estimated assessable profits within EUR500,000 (inclusive) and 33.33% for that above EUR500,000 |
| For year 2019 | 28% for the estimated assessable profits within EUR500,000 (inclusive) and 31% for that above EUR500,000 |
| For year 2020 | 28% |
| For year 2021 | 26.5% |
| For year 2022 and afterwards | 25% |

The provision of Luxembourg's current income tax is based on the rate of 29.22% (2016: 29.22%) of the estimated assessable profits arising during the year.

The major components of income tax credit for the years ended 31 December 2017 and 2016 are as follows:

| | **2017** | 2016 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Current income tax – Hong Kong | **235** | 138 |
| Current income tax – Europe | **24** | 179 |
| Deferred *(note 26)* | **(28,130)** | (45,519) |
| Income tax credit for the year | **(27,871)** | (45,202) |

## 11. INCOME TAX (continued)

A reconciliation of the tax credit applicable to loss before tax at the statutory rates for the jurisdictions in which the Company and its subsidiaries are domiciled to the tax credit at the effective tax rates, and a reconciliation of the applicable rates (i.e., the statutory tax rates) to the effective tax rates are as follows:

| **2017** | **Mainland China** | | **Hong Kong** | | **France** | | **Luxembourg** | | **Others(i)** | | **Total** | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | ***HK$'000*** | **%** | ***HK$'000*** | **%** | ***HK$'000*** | **%** | ***HK$'000*** | **%** | ***HK$'000*** | **%** | ***HK$'000*** | **%** |
| (Loss)/profit before tax from continuing operations | **(885)** | | **123,694** | | **(24,703)** | | **(121,265)** | | **(32)** | | **(23,191)** | |
| Tax at the statutory income tax rate | **(221)** | **25.0** | **20,410** | **16.5** | **(8,234)** | **33.3** | **(35,434)** | **29.2** | **–** | **–** | **(23,479)** | **101.3** |
| Expenses not deductible for tax | **–** | **–** | **10** | **0.01** | **5,920** | **(24.0)** | **35,434** | **(29.2)** | **–** | **–** | **41,364** | **(178.4)** |
| Income not subject to tax | **–** | **–** | **(23,147)** | **(18.7)** | **–** | **–** | **–** | **–** | **–** | **–** | **(23,147)** | **99.8** |
| Tax losses not recognised | **221** | **(25.0)** | **3,250** | **2.6** | **–** | **–** | **–** | **–** | **–** | **–** | **3,471** | **(15.0)** |
| Effect on deferred tax of decrease in rate | **–** | **–** | **–** | **–** | **(26,104)** | **105.7** | **–** | **–** | **–** | **–** | **(26,104)** | **112.6** |
| Minimum corporate income tax | **–** | **–** | **–** | **–** | **–** | **–** | **24** | **(0.02)** | **–** | **–** | **24** | **(0.1)** |
| Tax expense/(credit) at the Group's effective rate | **–** | **–** | **523** | **0.4** | **(28,418)** | **115.0** | **24** | **(0.02)** | **–** | **–** | **(27,871)** | **120.2** |

| 2016 | Mainland China | | Hong Kong | | France | | Luxembourg | | Others(i) | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | *HK$'000* | % | *HK$'000* | % | *HK$'000* | % | *HK$'000* | % | *HK$'000* | % | *HK$'000* | % |
| Profit/(loss) before tax from continuing operations | 132 | | (55,767) | | (319,454) | | 32,611 | | (1,033) | | (343,511) | |
| Tax at the statutory income tax rate | 33 | 25.0 | (9,202) | 16.5 | (106,485) | 33.3 | 9,529 | 29.2 | – | – | (106,125) | 30.9 |
| Expenses not deductible for tax | – | – | 10,197 | (18.3) | 106,020 | (33.2) | – | – | – | – | 116,217 | (33.8) |
| Income not subject to tax | – | – | (3,308) | 5.9 | – | – | (9,529) | (29.2) | – | – | (12,837) | 3.7 |
| Tax losses utilised from previous periods | (33) | (25.0) | – | – | – | – | – | – | – | – | (33) | 0.01 |
| Tax losses not recognised | – | – | 2,830 | (5.1) | – | – | – | – | – | – | 2,830 | (0.8) |
| Effect on deferred tax of decrease in rate | – | – | – | – | (45,433) | 14.2 | – | – | – | – | (45,433) | 13.23 |
| Minimum corporate income tax | – | – | – | – | 138 | (0.04) | 41 | 0.13 | – | – | 179 | (0.1) |
| Tax expense/(credit) at the Group's effective rate | – | – | 517 | (0.93) | (45,760) | 14.32 | 41 | 0.13 | – | – | (45,202) | 13.16 |

(i) Others represent the results of certain subsidiaries which are tax exempted companies incorporated in Bermuda and the British Virgin Islands.

## 12. DISCONTINUED OPERATIONS

On 4 January 2016, the board of the Company (the "Board") passed a resolution to consider to dispose of the entire issued share capital of Fame Risen Development Limited ("Fame Risen") and a shareholder's loan owning by Fame Risen to the Company ("Shareholder's Loan from Fame Risen") (collectively referred to as the "Disposal of Fame Risen") to Intelligent Wealth Limited ("Intelligent Wealth"). Intelligent Wealth is considered a related company to the Company as it is wholly owned by Mr. Du Shuang Hua, a shareholder who is deemed to be interested in approximately 5.54% of the issued share capital of the Company.

Fame Risen was the foreign joint venture partner of the associated companies holding:

(i) a 30% equity interest in 日照型鋼有限公司 (Rizhao Medium Section Mill Co., Ltd.), which is principally engaged in the manufacture and sale of wire rod, medium size wide and heavy plate, section steel and related products, including H-beams which are widely used in the construction, infrastructure, aeronautics and ship-building industries;

(ii) a 30% equity interest in 日照鋼鐵有限公司 (Rizhao Steel Co., Ltd.), which is principally engaged in the manufacture and sale of common carbon steel, low alloy steel and other steel billet; and

(iii) a 25% equity interest in 日照鋼鐵軋鋼有限公司 (Rizhao Steel Wire Co., Limited), which is principally engaged in the manufacture and sale of high-end metal parts, rod and wire materials for construction, strips and related products, including deformed steel bars, round steel bars and steel rolls.

As at 31 December 2015, the discussion and negotiation for the disposal were in progress and Fame Risen has been classified as a disposal group held for sale and as discontinued operations.

On 4 January 2016, the Company announced that it entered into an agreement regarding the Disposal of Fame Risen. A circular containing information on the Disposal of Fame Risen was despatched to the shareholders on 25 February 2016. A special general meeting of the Company was convened on 14 March 2016 and the relevant resolution on approving the Disposal of Fame Risen was passed by the shareholders at the meeting.

## 12. DISCONTINUED OPERATIONS (continued)

The results of Fame Risen for the year are presented below:

| | 2016 |
|---|---|
| | *HK$'000* |
| Administrative expenses | (2) |
| Share of losses of associates | (44,456) |
| Loss before tax from the discontinued operations | (44,458) |
| Income tax credit | 2,135 |
| Loss from the discontinued operations | (42,323) |
| Gain on disposal *(note 30)* | 42,709 |
| Reclassification of translation reserve from other comprehensive income to the statement of consolidated profit or loss upon disposal of a subsidiary | 155,523 |
| Reclassification of other reserve to profit or loss upon disposal of a subsidiary | 13,050 |
| | 211,282 |
| Profit from the discontinued operations | 168,959 |
| Attributable to: | |
| Owners of the Company | 168,959 |

The net cash flows incurred by Fame Risen are as follows:

| | 2016 |
|---|---|
| | *HK$'000* |
| Operating activities | (2) |
| Net cash outflows | (2) |

## 12. DISCONTINUED OPERATIONS (continued)

Earnings per share amount for the abovementioned discontinued operations is stated below:

| | 2016 |
|---|---|
| | *HK$'000* |
| Basic from the discontinued operations | HK1.32 cents |

The calculation of basic earnings per share from the discontinued operations is based on:

| | 2016 |
|---|---|
| **Profit (HK$'000)** | |
| Profit attributable to ordinary equity holders of the Company from the discontinued operations | 168,959 |
| **Number of shares ('000)** | |
| Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculation *(note 14)* | 12,778,880 |

The Group had no potentially dilutive ordinary shares in issue during the year ended 31 December 2016.

## 13. DIVIDENDS

The directors do not recommend the payment of any dividend in respect of the year (2016: Nil).

## 14. PROFIT/(LOSS) PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic profit/(loss) per share amount is based on the profit/(loss) for the year attributable to ordinary equity holders of the Company, and the weighted average number of 12,778,880,000 (2016: 12,778,880,000) shares in issue during the year.

The calculation of the diluted earnings per share amount is based on the profit for the year attributable to ordinary equity holders of the parent. The weighted average number of ordinary shares used in the calculation is the number of ordinary shares in issue during the year, as used in the basic earnings per share calculation, and the weighted average number of ordinary shares assumed to have been issued at no consideration on the deemed exercise or conversion of all dilutive potential ordinary shares into ordinary shares.

No adjustment has been made to the basic earnings per share amounts presented for the year ended 31 December 2017 in respect of a dilution as the impact of the share options had an anti-dilutive effect on the basic earnings per share amounts presented.

The calculations of basic loss per share is based on:

| | **2017**<br>***HK$'000*** | 2016<br>*HK$'000* |
|---|---|---|
| **Earnings/(loss)** | | |
| Profit/(loss) attributable to ordinary equity holders of the Company | | |
| From continuing operations | **4,680** | (298,309) |
| From discontinued operations | **–** | 168,959 |
| Profit/(loss) attributable to ordinary equity holders of the Company | **4,680** | (129,350) |

| | **2017** | 2016 |
|---|---|---|
| **Shares ('000)** | | |
| Weighted average number of ordinary shares in issue during the year used in the basic loss per share calculation | **12,778,880** | 12,778,880 |

## 15. PROPERTY, PLANT AND EQUIPMENT

| | Hotel properties HK$'000 | Buildings HK$'000 | Leasehold improvements HK$'000 | Motor vehicles HK$'000 | Office equipment HK$'000 | Construction in progress HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| As at 31 December 2015 | 3,373,460 | 60,151 | 18,928 | 8,019 | 3,159 | 790 | 3,464,507 |
| Additions | 2,754 | – | 298 | – | 180 | – | 3,232 |
| Transfers | 94 | – | – | – | – | (94) | – |
| Disposals | – | – | – | – | (18) | (199) | (217) |
| Exchange differences on translation | (108,736) | (4,754) | (3) | (467) | (17) | (14) | (113,991) |
| As at 31 December 2016 | 3,267,572 | 55,397 | 19,223 | 7,552 | 3,304 | 483 | 3,353,531 |
| Additions | 9,773 | – | 269 | – | 136 | 595 | 10,773 |
| Transfers | 1,114 | – | – | – | – | (1,114) | – |
| Disposals | (4,804) | – | (44) | – | (615) | – | (5,463) |
| Exchange differences on translation | 416,842 | 4,419 | – | 434 | 16 | 36 | 421,747 |
| As at 31 December 2017 | 3,690,497 | 59,816 | 19,448 | 7,986 | 2,841 | – | 3,780,588 |
| **Accumulated depreciation** | | | | | | | |
| As at 31 December 2015 | (47,785) | (11,029) | (17,403) | (7,411) | (2,403) | – | (86,031) |
| Charge for the year | (37,165) | (1,928) | (1,098) | (137) | (362) | – | (40,690) |
| Disposals | – | – | – | – | 16 | – | 16 |
| Exchange differences on translation | 3,295 | 953 | 3 | 597 | 17 | – | 4,865 |
| As at 31 December 2016 | (81,655) | (12,004) | (18,498) | (6,951) | (2,732) | – | (121,840) |
| Charge for the year | (38,373) | (1,922) | (397) | (57) | (218) | – | (40,967) |
| Disposals | 4,650 | – | 5 | – | 615 | – | 5,270 |
| Exchange differences on translation | (13,010) | (1,014) | (2) | (404) | (16) | – | (14,446) |
| As at 31 December 2017 | (128,388) | (14,940) | (18,892) | (7,412) | (2,351) | – | (171,983) |
| **Impairment loss** | | | | | | | |
| As at 31 December 2015 | – | – | – | – | – | – | – |
| Charge for the year | (6,580) | – | – | – | – | – | (6,580) |
| Exchange differences on translation | 322 | – | – | – | – | – | 322 |
| As at 31 December 2016 | (6,258) | – | – | – | – | – | (6,258) |
| Exchange differences on translation | (950) | – | – | – | – | – | (950) |
| As at 31 December 2017 | (7,208) | – | – | – | – | – | (7,208) |
| **Net carrying amount** | | | | | | | |
| **As at 31 December 2017** | 3,554,901 | 44,876 | 556 | 574 | 490 | – | 3,601,397 |
| As at 31 December 2016 | 3,179,659 | 43,393 | 725 | 601 | 572 | 483 | 3,225,433 |

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

The Group's land is included in hotel properties. The analysis of land is stated as follows:

Analysis of land:

| | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|
| In Hong Kong, held on lease expiring over 50 years | **420,334** | 420,793 |
| In France, freehold | **2,308,718** | 2,004,359 |
| | **2,729,052** | 2,425,152 |

At 31 December 2017, certain of the Group's hotel properties with a net carrying amount of approximately HK$3,040,597,000 (2016: approximately HK$3,179,659,000) were pledged to secure general banking facilities granted to the Group (note 25).

## 16. INTANGIBLE ASSETS

| | Software HK$'000 |
|---|---|
| **Cost** | |
| As at 1 January 2016 | 413 |
| Additions | 125 |
| Exchange differences on translation | (23) |
| As at 31 December 2016 | 515 |
| Additions | 205 |
| Exchange differences on translation | 93 |
| As at 31 December 2017 | 813 |
| **Amortisation** | |
| As at 1 January 2016 | (86) |
| Provided for the year | (59) |
| Exchange differences on translation | 7 |
| As at 31 December 2016 | (138) |
| Provided for the year | (66) |
| Exchange differences on translation | (26) |
| As at 31 December 2017 | (230) |
| **Net carrying amount** | |
| **As at 31 December 2017** | 583 |
| As at 31 December 2016 | 377 |

## 17. INVENTORIES

| | **2017** | 2016 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Food and beverages | **1,102** | 1,141 |

## 18. TRADE RECEIVABLES

| | **2017** | 2016 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Trade receivables | **23,523** | 15,521 |

Hotel operation revenue is normally settled by cash or credit card. For travel agents and certain corporate customers, the credit period is generally one month. There is no significant concentration of credit risk. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

An ageing analysis of trade receivables as at the end of the reporting period, based on the invoice date and net of provisions, is as follows:

| | **2017** | 2016 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within 1 month | **16,937** | 9,996 |
| 1 to 3 months | **6,534** | 5,480 |
| Over 3 months | **52** | 45 |
| | **23,523** | 15,521 |

No impairment allowance is necessary in respect of trade receivables because there has not been a significant change in credit quality and the balances are considered fully recoverable.

## 19. LOANS RECEIVABLE

| | **2017** | 2016 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Loans receivable | **–** | 63,000 |

The Group's loans receivable, which arise from the money lending business of providing mortgage loans in Hong Kong, are denominated in Hong Kong dollars.

Loans receivable are secured by collateral providing by customers, bear interest and are repayable within fixed terms agreed with the customers.

As at 31 December 2016, loans receivable were neither past due or impaired.

## 20. OTHER RECEIVABLES AND PREPAYMENTS

| | **2017** | 2016 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Tax prepayments | **327** | 5,601 |
| Input tax of value added tax | **18,376** | 15,969 |
| Prepayments | **1,902** | 1,881 |
| Interest receivables | **–** | 194 |
| Deposits and other receivables | **2,733** | 4,003 |
| | **23,338** | 27,648 |

None of the above assets is either past due or impaired. The financial assets included in the above balances relate to receivables for which there was no recent history of default.

The Group's interest receivables, which arise from the money lending business of providing mortgage loans in Hong Kong, are denominated in Hong Kong dollars. Interest receivables are secured by collateral provided by customers and repayable with fixed terms agreed with the customers.

## 21. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

| | **2017** | 2016 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Cash and bank balances | **537,497** | 559,035 |
| Pledged deposits | **(24,101)** | (19,314) |
| Cash and cash equivalents | **513,396** | 539,721 |

As at 31 December 2017 and 2016, the pledged deposits represented the time deposits pledged to secure repayment of interest arising from interest-bearing bank borrowings.

As at 31 December 2017, the cash and bank balances of the Group denominated in RMB amounted to HK$37,223,000 (2016: HK$34,322,000). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months in Hong Kong and Mainland China depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default. The carrying amounts of these assets approximate to their fair values.

## 22. TRADE PAYABLES

An ageing analysis of the trade payables as at the end of the reporting period, based on the invoice date, is as follows:

| | **2017** | 2016 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within 1 month | **10,198** | 6,229 |

The trade payables are non-interest-bearing and are normally settled on 30-days terms.

## 23. OTHER PAYABLES AND ACCRUALS

| | **2017** | 2016 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Other payables | **14,022** | 9,132 |
| Other tax payables | **19,604** | 14,438 |
| Accruals | **9,787** | 7,977 |
| Interest payable | **8,551** | 7,344 |
| | **51,964** | 38,891 |

Other payables are non-interest-bearing and have no significant balances with ageing over one year.

## 24. DERIVATIVE FINANCIAL INSTRUMENTS

| | **2017** | 2016 |
|---|---|---|
| | **Liabilities** | Liabilities |
| | ***HK$'000*** | *HK$'000* |
| Interest rate swaps | **22,181** | 29,973 |
| Portion classified as current portion | **(11,342)** | (9,736) |
| Non-current portion | **10,839** | 20,237 |

**Interest rate swaps – cash flow hedges**

At 31 December 2017 and 2016, the Group had an interest rate swap agreement in place with a notional amount of EUR175,000,000 whereby it received interest at a variable rate equal to the Europe Interbank Offered Rate ("EURIBOR") on the notional amount and paid interest at a fixed rate of 0.516%.

The swap is designated as a hedging instrument to hedge the exposure to changes in future cash outflows of interests arising from its 5-year secured loan (note 25). The secured loan and the interest rate swap agreement have the same critical terms. The hedge of the interest rate swap was assessed to be effective, and a net gain of HK$8,926,000 (2016: net loss of HK$4,544,000) was included in the hedging reserve as follows:

| | **2017** | 2016 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Total fair value loss included in the hedging reserve | **1,433** | 15,622 |
| Deferred tax on fair value loss | **(444)** | (4,374) |
| Reclassified from other comprehensive income and recognised in the statement of profit or loss *(note 7)* | **(12,967)** | (11,327) |
| Deferred tax on reclassification to profit or loss | **4,020** | 3,172 |
| Effect on deferred tax of change in rate | **(968)** | 1,451 |
| Net (gain)/loss on cash flow hedges | **(8,926)** | 4,544 |

## 25. INTEREST-BEARING BANK AND OTHER BORROWINGS

| | 2017 | | | 2016 | | |
|---|---|---|---|---|---|---|
| | **Effective interest rate (%)** | **Maturity** | ***HK$'000*** | Effective interest rate (%) | Maturity | *HK$'000* |
| **Current** | | | | | | |
| Bank loans-secured(ii) | – | – | – | One month HIBOR+2.36% | 2017 | 12,000 |
| **Non-current** | | | | | | |
| Other secured bank loans(ii) | – | – | – | One month HIBOR+2.36% | 24 March 2020 | 125,000 |
| Other loans-secured | | | | | | |
| Three months EURIBOR+2.2%(i)* | **0.516%+2.2%*** | **14 October 2019** | **1,602,630** | 0.516%+2.2%* | 14 October 2019 | 1,387,426 |
| | | | **1,602,630** | | | 1,512,426 |
| | | | **1,602,630** | | | 1,524,426 |

* Includes effects of a related interest rate swap as disclosed in note 24 to the financial statements.

| | **2017** ***HK$'000*** | 2016 *HK$'000* |
|---|---|---|
| Analysed into: | | |
| Bank loans repayable: | | |
| Within one year | – | 12,000 |
| In the second year | **1,602,630** | 12,000 |
| In the third to fifth years, inclusive | – | 1,500,426 |
| | **1,602,630** | 1,524,426 |

(i) On 13 October 2014, the Group borrowed loans of EUR175,000,000 from Societe Generale Corporate & Investment Banking which will be repaid on 14 October 2019 bearing interest at three month EURIBOR plus 2.2%. The loans were pledged by the Group's hotel property situated in France, which had an aggregate carrying value of HK$3,040,597,000 as at 31 December 2017 (2016: HK$2,662,628,000).

(ii) On 27 March 2014, the Group borrowed loans of HK$170,000,000 from The Hongkong and Shanghai Banking Corporation Limited which will be repayable by 71 equal monthly instalments of HK$1,000,000, commencing one month after drawdown plus a final instalment of HK$99,000,000. The loans were pledged by the Group's hotel property situated in Hong Kong, which had an aggregate carrying value of HK$517,031,000 as at 31 December 2016. The loan had been repaid in December 2017 in advance.

## 26. DEFERRED TAX

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

### Deferred tax liabilities

| | Fair value adjustments from acquisition of subsidiaries HK$'000 | Others HK$'000 | Total HK$'000 |
|---|---|---|---|
| As at 1 January 2017 | 303,584 | 5,848 | 309,432 |
| Deferred tax credited to loss from continuing operations *(note 11)* | (29,390) | (636) | (30,026) |
| Exchange differences on translation | 35,513 | 843 | 36,356 |
| Gross deferred tax liabilities at 31 December 2017 | 309,707 | 6,055 | 315,762 |

### Deferred tax assets

| | Cash flow hedges HK$'000 | Losses available for offsetting against future taxable profits HK$'000 | Fair value adjustments from acquisition of subsidiaries HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| As at 1 January 2017 | 8,392 | 22,897 | 4,507 | 35,796 |
| Deferred tax charged to loss from continuing operations *(note 11)* | – | (1,662) | (234) | (1,896) |
| Deferred tax charged to other comprehensive loss | (2,608) | – | – | (2,608) |
| Exchange differences on translation | 1,091 | 3,360 | – | 4,451 |
| Gross deferred tax assets at 31 December 2017 | 6,875 | 24,595 | 4,273 | 35,743 |

## 26. DEFERRED TAX (continued)

### Deferred tax assets (continued)

For presentation purposes, certain deferred tax assets and liabilities have been offset in the consolidated statement of financial position.

| | HK$'000 |
|---|---|
| Deferred tax assets recognised in the consolidated statement of financial position at 31 December 2017 | **29,688** |
| Net deferred tax liabilities recognised in the consolidated statement of financial position at 31 December 2017 | **309,707** |

### Deferred tax liabilities

| | Fair value adjustments from acquisition of subsidiaries *HK$'000* | Others *HK$'000* | Total *HK$'000* |
|---|---|---|---|
| As at 1 January 2016 | 365,905 | 6,602 | 372,507 |
| Deferred tax credited to loss from continuing operations *(note 11)* | (53,102) | (528) | (53,630) |
| Exchange differences on translation | (9,219) | (226) | (9,445) |
| Gross deferred tax liabilities at 31 December 2016 | 303,584 | 5,848 | 309,432 |

## 26. DEFERRED TAX (continued)

### Deferred tax assets

| | Cash flow hedges *HK$'000* | Losses available for offsetting against future taxable profits *HK$'000* | Fair value adjustments from acquisition of subsidiaries *HK$'000* | Total *HK$'000* |
|---|---|---|---|---|
| As at 1 January 2016 | 8,972 | 31,276 | 5,062 | 45,310 |
| Deferred tax charged to loss from continuing operations *(note 11)* | – | (7,556) | (555) | (8,111) |
| Deferred tax charged to other comprehensive loss | (249) | – | – | (249) |
| Exchange differences on translation | (331) | (823) | – | (1,154) |
| Gross deferred tax assets at 31 December 2016 | 8,392 | 22,897 | 4,507 | 35,796 |

For presentation purposes, certain deferred tax assets and liabilities have been offset in the consolidated statement of financial position.

| | *HK$'000* |
|---|---|
| Deferred tax assets recognised in the consolidated statement of financial position at 31 December 2016 | 29,948 |
| Net deferred tax liabilities recognised in the consolidated statement of financial position at 31 December 2016 | 303,584 |

## 26. DEFERRED TAX (continued)

Deferred tax assets have not been recognised in respect of the following items:

| | 2017 HK$'000 | 2016 HK$'000 |
|---|---|---|
| Tax losses arising in Hong Kong(i) | **170,785** | 151,088 |
| Tax losses arising in Mainland China(ii) | **10,159** | 8,559 |
| Tax losses arising in Luxembourg(iii) | **757** | 657 |
| | **181,701** | 160,304 |

(i) The Group has tax losses arising in Hong Kong of HK$170,785,000 (2016: HK$151,088,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose.

(ii) The Group has tax losses arising in Mainland China of HK$10,159,000 (2016: HK$8,559,000) that will expire in one to five years for offsetting against future taxable profits of the entities.

(iii) The Group has tax losses arising in Luxembourg of HK$757,000 (2016: HK$657,000) that are available indefinitely for offsetting against future taxable profits of the entities in which the losses arose.

Deferred tax assets have not been recognised in respect of the above tax losses and deductible temporary differences arisen in certain subsidiaries as they have been loss-making for some time and it is not considered probable that future taxable profits will be available against which the tax losses can be utilised.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

## 27. ISSUED CAPITAL

| | Number of shares | | Issued capital | |
|---|---|---|---|---|
| | 2017 '000 | 2016 '000 | 2017 HK$'000 | 2016 HK$'000 |
| Ordinary shares of HK$0.10 each | | | | |
| Authorised: | | | | |
| At beginning and end of year | **20,000,000** | 20,000,000 | **2,000,000** | 2,000,000 |
| Issued and fully paid: | | | | |
| At beginning and end of year | **12,778,880** | 12,778,880 | **1,277,888** | 1,277,888 |

## 28. SHARE OPTION SCHEME

Pursuant to a resolution passed on 17 May 2012 (the "Effective Date"), the Company adopted a new share option scheme (the "2012 Option Scheme"), which is for the purpose of providing incentives or rewards to eligible participants for their contributions to the Group and/or to enable the Group to recruit and retain high calibre employees and attract human resources that are valuable to the Group and any entity in which the Group holds an equity interest. Under the 2012 Option Scheme, the board of directors of the Company may grant options to eligible participants, including directors, eligible employee, non-executive director (including independent non-executive directors) and consultants etc. of the Company or its subsidiaries.

Pursuant to the 2012 Option Scheme, the maximum number of shares which may be issued upon exercise of all outstanding options granted and not yet exercised under the 2012 Option Scheme and any other share option schemes of the Company shall not exceed 30% of the share in issue from time to time. The subscription price for shares in respect of any options granted under the 2012 Option Scheme will be a price determined by the board of the directors of the Company, in its absolute discretion, but in any case will not be lower than the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotation sheet on the date of offer, which must be a trading day; (ii) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotation sheets for the five trading days immediately preceding the date of grant; and (iii) the nominal value of a share on the date of grant, provided that for the purpose of calculating the subscription price, where the shares have been listed on the Stock Exchange for less than five trading days, the new issue price shall be used as the closing price for any trading day falling within the period before such listing. The offer of a grant of share options may be accepted within 28 days from the date of offer. Upon acceptance of the option, the grantee shall pay HK$1.00 to the Company by way of consideration for the grant.

No eligible participant shall be granted an option if the total number of shares of the Company issued and to be issued upon exercise of the options granted and to be granted (including both exercised and outstanding options) in any 12-month period up to the date of the proposed grant to such eligible participant would exceed 1% of the shares of the Company for the time being in issue unless the proposed grant has been approved by the shareholders of the Company in a general meeting with the proposed eligible participant and his associates abstaining from voting.

An option may be exercised in accordance with the terms of the 2012 Option Scheme at any time during a period as the Board may in its absolute discretion determine which shall not be more than 10 years from the date of grant of the option and subject to the provisions of early termination thereof and the Board may provide restrictions on the exercise of an option.

Pursuant to the 2012 Option Scheme, the Company granted options to subscribe for 145,780,000 shares to eligible participants on 15 December 2017.

The following share options were outstanding under the 2012 Option Scheme during the year:

| Grantees | At 1 January 2017 *'000* | Granted during the year *'000* | Exercised during the year *'000* | Cancelled/ Lapsed during the year *'000* | Outstanding as at 31 December 2017 *'000* | Exercise price per share (subject to anti-dilutive adjustment) *HK$* | Closing price per share before the date on which the options were granted *HK$* |
|---|---|---|---|---|---|---|---|
| **Directors** | | | | | | | |
| Mr. Xue Jian | – | 127,780 | – | – | 127,780 | 0.100 | 0.047 |
| Mr. Law Wing Chi, Stephen | – | 10,000 | – | – | 10,000 | 0.100 | 0.047 |
| **Employees** | | | | | | | |
| Other employees | – | 8,000 | – | – | 8,000 | 0.100 | 0.047 |
| Exercisable at the end of the year | – | 145,780 | – | – | 145,780 | | |
| Weighted average exercise price per share (HK$) | | 0.1 | | | 0.1 | | |

## 28. SHARE OPTION SCHEME (continued)

The exercise price and exercise period of the share options outstanding as at the end of the reporting period were as follows:

**2017**

| Number of options '000 | Exercise price* HK$ per share | Exercise period |
|---|---|---|
| **145,780** | **0.1** | **15 December 2017 to 16 May 2022** |

* The exercise price of the share options is subject to adjustment in the case of rights or bonus issues, or other similar changes in the Company's share capital.

The fair value of the share options granted during the year was HK$2,173,000 (HK$0.015 each) (2016: Nil), of which the Group recognised a share option expense of HK$2,173,000 (2016: Nil) during the year ended 31 December 2017.

The fair value of equity-settled share options granted was estimated as at the date of grant, using a binomial model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used for the scheme:

| | **2017** |
|---|---|
| Expected volatility (%) | **63.55** |
| Risk-free interest rate (%) | **1.53** |
| Exercise multiple – Directors | **3.34** |
| Exercise multiple – Other employees | **2.86** |
| Weighted average share price (HK$ per share) | **0.1** |

The expected volatility reflects the assumption that the historical volatility is indicative of future trends, which may also not necessarily be the actual outcome.

No other feature of the options granted was incorporated into the measurement of fair value.

At the end of the reporting period, the Company had 145,780,000 share options outstanding under the Scheme. The exercise in full of the outstanding share options would, under the present capital structure of the Company, result in the issue of 145,780,000 additional ordinary shares of the Company, additional share capital of HK$14,578,000 and additional share premium of HK$2,173,000 transferred from the share option reserve to share premium.

At the date of approval of these financial statements, the Company had 145,780,000 share options outstanding under the 2012 Option Scheme, which represented 1.14% of the Company's shares in issue as at that date.

## 29. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 46 of the financial statements.

## 30. DISPOSAL OF A SUBSIDIARY

As detailed in note 12, the Group disposed of Fame Risen in 2016.

| | 15 April 2016 |
|---|---|
| | *HK$'000* |
| Net assets disposed of: | |
| Investment in an associate | 2,169,620 |
| Cash and cash equivalents | 1,707 |
| Deferred tax liabilities | (16,233) |
| Amount due to the Group | (27,536) |
| | 2,127,558 |
| Consideration | 2,383,148 |
| Less: Disposal related expenses | (8,784) |
| Less: PRC taxation regarding the disposal | (176,561) |
| Disposal of Shareholder's Loan from Fame Risen | (27,536) |
| Net proceeds received | 2,170,267 |
| Gain on the Disposal of Fame Risen | 42,709 |

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

| | 2016 |
|---|---|
| | *HK$'000* |
| Consideration | 2,383,148 |
| Disposal related expenses paid | (8,784) |
| Income tax paid | (176,561) |
| Set-off against the outstanding loan of the Group due to a related company | (1,854,308) |
| Set-off against the outstanding loan interest of the Group due to a related company | (41,619) |
| Cash and bank balances disposed of | (1,707) |
| Net inflows of cash and cash equivalents in respect of the disposal of a subsidiary | 300,169 |

The consideration of HK$2,383,148,000 was determined after arm's length negotiations between the Company and Intelligent Wealth.

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

### (a) Major non-cash transactions

During the year, the Group do not generate any major non-cash transactions (2016: Nil).

### (b) Changes in liabilities arising from financing activities

| | Bank and other loans *HK$'000* |
|---|---|
| At 1 January 2017 | **1,524,426** |
| Changes from financing cash flows | **(137,000)** |
| Foreign exchange movement | **215,204** |
| At 31 December 2017 | **1,602,630** |

## 32. PENSION SCHEME AND OTHER RETIREMENT BENEFITS

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

The employees of the Group's subsidiaries which operate in Mainland China are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute 20% of their payroll costs to the central pension scheme. The contributions are charged to the statement of profit or loss as they become payable in accordance with the rules of the central pension scheme.

The total pension cost charged to the consolidated statement of profit or loss is approximately HK$300,000 (2016: HK$342,000).

There is no provision under the MPF Scheme whereby forfeited contributions may be used to reduce future contributions.

## 33. CONTINGENT LIABILITIES

As of 31 December 2017, the Group had no contingent liabilities.

## 34. PLEDGE OF ASSETS

Details of the Group's interest-bearing bank borrowings, which are secured by the assets of the Group, are included in note 25 to the financial statements.

## 35. OPERATING LEASE ARRANGEMENTS

**As lessee**

The Group leases certain of its office properties under operating lease arrangements. Leases for these properties are negotiated for terms ranging from one to three years.

At 31 December 2017, the Group had total future minimum commitments under non-cancellable operating leases, which fall due as follows:

| | **2017** | 2016 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within one year | **1,428** | 1,428 |
| In the second to fifth years, inclusive | **595** | 1,626 |
| | **2,023** | 3,054 |

## 36. COMMITMENTS

**Credit commitments**

The Group's irrevocable credit commitments at the end of the reporting period are as follows:

| | **2017** | 2016 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Irrevocable credit commitments | **–** | 50,000 |

## 37. RELATED PARTY TRANSACTIONS

**(a) Related party transactions:**

Other than the disposal of a subsidiary to a related party disclosed in note 12 and note 30 to the financial statements, the Group entered into the following transaction with a related party:

| | | **2017** | 2016 |
|---|---|---|---|
| | *Note* | ***HK$'000*** | *HK$'000* |
| Interest expense to Most Honour Limited[1] | 7 | **–** | 21,082 |

(1) The amount is a loan from Most Honour Limited, a company wholly-owned by Mr. Du Shuang Hua, who in turn is a shareholder deemed to be interested in approximately 5.54% of the issued share capital of the Company. The loan was denominated in United States dollars with an amount of US$239,265,600 (equivalent to approximately HK$1,854,308,000), which is secured by the shares of Crown Value, bears interest at 4% per annum and is repayable after two years. As mentioned in note 30, the loan was set-off against consideration upon disposal of the steel manufacturing and trading segment.

## 37. RELATED PARTY TRANSACTIONS (continued)

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

The remuneration of key management during the year was as follows:

| | **2017** **HK$'000** | 2016 HK$'000 |
|---|---|---|
| Short term employee benefits | **5,280** | 7,280 |
| Equity-settled share option expense | **2,054** | – |
| Pension scheme contributions | **36** | 44 |
| Total compensation paid to key management personnel | **7,370** | 7,324 |

Further details of directors' remuneration are included in note 9 to the financial statements.

Having due regard to the substance of the relationships, the directors are of the opinion that meaningful information relating to related party disclosures has been adequately disclosed.

## 38. FINANCIAL INSTRUMENTS BY CATEGORY

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

**2017**

**Financial assets**

| | **Loans and receivables** **HK$'000** |
|---|---|
| Trade receivables | **23,523** |
| Financial assets included in other receivables and prepayments | **2,733** |
| Pledged time deposits | **24,101** |
| Cash and cash equivalents | **513,396** |
| | **563,753** |

## 38. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

| | Derivatives designated as hedge instruments in hedge relationship *HK'000* | Financial liabilities at amortised cost *HK$'000* | Total *HK$'000* |
|---|---|---|---|
| Trade payables | **–** | **10,198** | **10,198** |
| Derivative financial instruments | **22,181** | **–** | **22,181** |
| Financial liabilities included in other payables and accruals | **–** | **22,573** | **22,573** |
| Interest-bearing bank and other borrowings | **–** | **1,602,630** | **1,602,630** |
| | **22,181** | **1,635,401** | **1,657,582** |

2016

Financial assets

| | Loans and receivables *HK$'000* |
|---|---|
| Trade receivables | 15,521 |
| Loans receivables | 63,000 |
| Financial assets included in other receivables and prepayments | 4,197 |
| Pledged time deposits | 19,314 |
| Cash and cash equivalents | 539,721 |
| | 641,753 |

Financial liabilities

| | Derivatives designated as hedge instruments in hedge relationship *HK$'000* | Financial liabilities at amortised cost *HK$'000* | Total *HK$'000* |
|---|---|---|---|
| Trade payables | – | 6,229 | 6,229 |
| Derivative financial instruments | 29,973 | – | 29,973 |
| Financial liabilities included in other payables and accruals | – | 16,476 | 16,476 |
| Interest-bearing bank and other borrowings | – | 1,524,426 | 1,524,426 |
| | 29,973 | 1,547,131 | 1,577,104 |

## 39. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that approximate to fair values, are as follows:

| | Carrying amounts | | Fair values | |
|---|---|---|---|---|
| | **2017** | 2016 | **2017** | 2016 |
| | ***HK$'000*** | *HK$'000* | ***HK$'000*** | *HK$'000* |
| **Financial liabilities** | | | | |
| Derivative financial instruments | **22,181** | 29,973 | **22,181** | 29,973 |

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, loans receivable, trade receivables, trade payables, financial assets included in other receivables and prepayments, financial liabilities included in other payables and accruals, and the current portion of interest-bearing bank borrowings approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's corporate finance team headed by the finance manager is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The corporate finance team reports directly to the chief financial officer and the audit committee. At each reporting date, the corporate finance team analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the chief financial officer.

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

The fair values of the non-current portion of interest-bearing bank borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The fair values have been assessed approximate to their carrying amounts.

The Group enters into derivative financial instruments with creditworthy financial institutions. Derivative financial instruments, mainly interest rate swaps, are measured using valuation techniques similar to swap models, using present value calculations. The models incorporate various market observable inputs including the credit quality of counterparties, and interest rate curves. The carrying amounts of interest rate swaps are the same as their fair values.

## 39. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (continued)

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

**Liabilities measured at fair value:**

**As at 31 December 2017**

| | Fair value measurement using | | | |
|---|---|---|---|---|
| | **Quoted prices in active markets (Level 1)** | **Significant observable inputs (Level 2)** | **Significant unobservable inputs (Level 3)** | **Total** |
| | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** |
| Derivative financial instruments | **–** | **22,181** | **–** | **22,181** |

As at 31 December 2016

| | Fair value measurement using | | | |
|---|---|---|---|---|
| | Quoted prices in active markets (Level 1) | Significant observable inputs (Level 2) | Significant unobservable inputs (Level 3) | Total |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Derivative financial instruments | – | 29,973 | – | 29,973 |

During the year, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2016: Nil).

## 40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise interest-bearing bank borrowings, and cash and cash equivalents. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables, other receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are credit risk, liquidity risk, interest rate risk and foreign currency risk. Management reviews and agrees policies for managing each of these risks, which are summarised below. The Group's accounting policies in relation to financial instruments are set out in note 2.4 to the financial statements.

### Credit risk

The Group's credit risk arises from cash and cash equivalents, trade receivables, loans receivable, interest receivables and deposits and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis. The carrying amount of these balances represents the Group's maximum exposure to credit risk in relation to financial assets.

Most of the Group's sales arising from hotel business are settled in cash or in credit card by its customers. Credit sales are made to selected customers with good credit history. The Group has policies in place to ensure that trade receivables are followed up on a timely basis. Management does not expect any losses from non-performance by these counterparties.

For money lending business, the Group manages and analyses the credit risk for each of their new and existing clients before standard payment terms and conditions are offered. If there is no independent rating, the Group assesses the credit quality of the customer based on the customer's financial position, past experience and other factors. The Group holds collateral against loans receivable and interest receivables in the form of mortgages over property. Majority of the collateral are residential properties, commercial properties and industrial properties and all of the collaterals are located in Hong Kong. Individual risk limits are set based on the value of collateral provided by customers and internal or external ratings in accordance with limits set by the directors. The utilisation of credit limits is regularly monitored.

The Group generally grants loans with a loan-to-value ratio of no more than 70% of the value in the valuation report of the property for first property mortgage, and where it is subordinate property mortgage, the aggregate lending from all lenders to the customer should not exceed 70% of the value of the underlying property. The directors meet regularly to review the loan-to-value ratio. The directors consider that the credit risk arising from loans and interest receivables is significantly mitigated by the property held as collateral, with reference to the estimated market value of the property. The Group generally maintains at all time each individual loan and interest receivables amount to be less than 70% of the total fair value of the corresponding collateral at estimated selling price.

## 40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### Liquidity risk

The Group's treasury department closely monitors the Group's cash flow positions on a regular basis to ensure the cash flows of the Group are positive. The Group aims to maintain flexibility in funding by keeping committed credit lines available, obtaining debentures from specific entities and borrowing loans from banks.

The maturity profile of the Group's financial liabilities as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

| | **2017** | | | |
|---|---|---|---|---|
| | **Less than 3 months** | **3 to less than 12 months** | **1 to 5 years** | **Total** |
| | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** | ***HK$'000*** |
| Trade payables | **10,198** | **–** | **–** | **10,198** |
| Derivative financial instruments | **4,540** | **6,802** | **10,839** | **22,181** |
| Financial liabilities included in other payables and accruals | **22,573** | **–** | **–** | **22,573** |
| Interest-bearing bank borrowings | **10,520** | **31,218** | **1,642,539** | **1,684,277** |
| | **47,831** | **38,020** | **1,653,378** | **1,739,229** |

| | 2016 | | | |
|---|---|---|---|---|
| | Less than 3 months | 3 to less than 12 months | 1 to 5 years | Total |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| Trade payables | 6,229 | – | – | 6,229 |
| Derivative financial instruments | 3,918 | 5,818 | 20,237 | 29,973 |
| Financial liabilities included in other payables and accruals | 16,476 | – | – | 16,476 |
| Interest-bearing bank borrowings | 14,211 | 42,259 | 1,598,426 | 1,654,896 |
| | 40,834 | 48,077 | 1,618,663 | 1,707,574 |

## 40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term debt obligations with a floating interest rate.

The Group's policy is to manage its interest cost using a mix of fixed and variable rate debts. The Group's policy is to maintain most of its interest-bearing borrowings at fixed interest rates. To manage this mix in a cost-effective manner, the Group enters into interest rate swaps, in which the Group agrees to exchange, at specified intervals, the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. At 31 December 2017, after taking into account the effect of the interest rate swaps, approximately 100% (2016: 91%) of the Group's interest-bearing borrowings bore interest at fixed rates.

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

| | Increase/ (decrease) in basis points | Increase/ (decrease) in profit before tax<br>*HK$'000* | Increase/ (decrease) in equity*<br>*HK$'000* |
|---|---|---|---|
| **2017** | | | |
| Hong Kong dollar | **100** | **–** | **(18,623)** |
| Hong Kong dollar | **(100)** | **–** | **13,430** |
| 2016 | | | |
| Hong Kong dollar | 100 | (1,370) | (15,872) |
| Hong Kong dollar | (100) | 1,370 | 11,876 |

* Excluding retained profits

## 40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### Foreign currency risk

The Group has foreign currency risk as some monetary assets and liabilities are not denominated in the functional currencies.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the foreign currencies exchange rates, with all other variables held constant, of the Group's loss before tax (due to changes in the fair values of monetary assets and liabilities).

| **2017** | **Increase/ (decrease) in foreign exchange rates** *%* | **Increase/ (decrease) in profit before tax** *HK$'000* |
|---|---|---|
| If US$ weakens against HKD | **5%** | **(69)** |
| If US$ strengthens against HKD | **(5%)** | **69** |
| If EUR weakens against HKD | **5%** | **(221)** |
| If EUR strengthens against HKD | **(5%)** | **221** |

| 2016 | Increase/ (decrease) in foreign exchange rates *%* | Increase/ (decrease) in profit before tax *HK$'000* |
|---|---|---|
| If US$ weakens against HKD | 5% | (543) |
| If US$ strengthens against HKD | (5%) | 543 |
| If EUR weakens against HKD | 5% | (222) |
| If EUR strengthens against HKD | (5%) | 222 |

## 40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### Capital management

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

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the years ended 31 December 2017 and 31 December 2016.

The Group monitors capital using a gearing ratio, which is total borrowings divided by total assets. Total borrowings include interest-bearing bank borrowings. The gearing ratios as at the end of the reporting periods were as follows:

| | *Note* | **2017**<br>***HK$'000*** | 2016<br>*HK$'000* |
|---|---|---|---|
| Total borrowings | | | |
| Interest-bearing bank borrowings | *25* | **1,602,630** | 1,524,426 |
| Total assets | | **4,217,128** | 3,922,103 |
| Gearing ratio | | **38.0%** | 38.9% |

## 41. EVENTS AFTER THE REPORTING PERIOD

On 16 March 2018, the Company and an independent third party (the "Possible Purchaser") entered into a memorandum of understanding (the "MOU"), pursuant to which the Company and the Possible Purchaser will engage in further discussions to explore the possible transaction, namely the proposed disposal of Leading Prospect Limited and its subsidiaries (the "Target Group") which owns a property and the business operated as a hotel in Sheung Wan, Hong Kong, together with the assignment of shareholder's loan due by the Target Group to the Company (the "Possible Disposal").

Pursuant to the terms of the MOU, the Possible Purchaser shall be entitled to carry out due diligence on the Target Group within three weeks from the date of the MOU (or such other period as the parties may agree in writing) (the "Prescribed Period"). The parties shall use their best endeavours to negotiate and enter into a formal agreement for the Possible Disposal as soon as possible, but in any event within one month from the date of MOU (or such later period as the parties may agree in writing). The Company agrees that it shall not contact, negotiate or discuss or otherwise deal with any third parties for the purpose of or in connection with the Possible Disposal or enter into any binding commitment with any other third party in respect of the Possible Disposal during the Prescribed Period.

Save for the clauses relating to exclusivity, expenses, confidentiality and governing law, the MOU shall create no legal and binding obligations on the parties thereto.

To the date of approval of the financial statements, no formal sales agreement regarding the Possible Disposal has been reached.

## 42. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

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

| | **2017** | 2016 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| NON-CURRENT ASSETS | | |
| Investments in subsidiaries | **1,269** | 1,001 |
| Total non-current assets | **1,269** | 1,001 |
| CURRENT ASSETS | | |
| Amounts due from subsidiaries | **2,095,283** | 1,966,890 |
| Other receivables and prepayments | **1,095** | 1,107 |
| Cash and cash equivalents | **276,695** | 304,469 |
| Total current assets | **2,373,073** | 2,272,466 |
| CURRENT LIABILITIES | | |
| Amounts due to subsidiaries | **122,110** | 251,230 |
| Other payables and accruals | **1,552** | 1,670 |
| Total current liabilities | **123,662** | 252,900 |
| NET CURRENT ASSETS | **2,249,411** | 2,019,566 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | **2,250,680** | 2,020,567 |
| Net assets | **2,250,680** | 2,020,567 |
| EQUITY | | |
| Share capital | **1,277,888** | 1,277,888 |
| Reserves *(note)* | **972,792** | 742,679 |
| Total equity | **2,250,680** | 2,020,567 |

Approved on behalf of the board of directors:

**Xue Jian**
*Director*

**Law Wing Chi, Stephen**
*Director*

## 42. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Note:

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

| | Share premium *HK$'000* | Share option reserve *HK$'000* | Translation reserve *HK$'000* | Accumulated losses *HK$'000* | Total *HK$'000* |
|---|---|---|---|---|---|
| At 1 January 2016 | 1,027,637 | – | 23,350 | (1,459,343) | (408,356) |
| Profit and total comprehensive income for the year | – | – | – | 1,151,035 | 1,151,035 |
| At 31 December 2016 and 1 January 2017 | 1,027,637 | – | 23,350 | (308,308) | 742,679 |
| Profit and total comprehensive income for the year | – | – | – | 227,940 | 227,940 |
| Equity-settled share option arrangements | – | 2,173 | – | – | 2,173 |
| At 31 December 2017 | 1,027,637 | 2,173 | 23,350 | (80,368) | 972,792 |

The share option reserve comprises the fair value of share options granted which are yet to be exercised, as further explained in the accounting policy for share-based payments in note 2.4 to the financial statements. The amount will either be transferred to the share premium account when the related options are exercised, or be transferred to retained profits should the related options expire or be forfeited.

## 43. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 26 March 2018.

# FIVE YEAR FINANCIAL SUMMARY

A summary of the result and of the assets, liabilities and non-controlling interests of Group for the last five financial years, as extracted from the published audited financial statements and restated/reclassified as appropriate, is set out below.

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2017** | 2016 | 2015 | 2014 | 2013 |
| | ***HK$'000*** | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **RESULTS** | | | | | |
| REVENUE | **289,931** | 276,587 | 329,737 | 88,688 | 757,490 |
| (LOSS)/PROFIT BEFORE TAX | **(23,191)** | (174,552) | (31,401) | 63,796 | (73,274) |
| Income tax credit/(expense) | **27,871** | 45,202 | (12,658) | 41,785 | (23,699) |
| PROFIT/(LOSS) FOR THE YEAR | **4,680** | (129,350) | (44,059) | 105,581 | (96,973) |

## ASSETS, LIABILITIES AND NON-CONTROLLING INTEREST

| | | | | | |
|---|---|---|---|---|---|
| Total assets | **4,217,128** | 3,922,103 | 6,327,545 | 7,961,825 | 3,806,601 |
| Total liabilities | **(1,997,129)** | (1,903,347) | (3,959,661) | (4,903,184) | (789,498) |
| Non-controlling interests | **–** | – | – | (305,088) | (306,968) |
| | **2,219,999** | 2,018,756 | 2,367,884 | 2,753,553 | 2,710,135 |