



2017
ANNUAL REPORT



First Shanghai Investments Limited
Stock Code: 227

商界展關懷
caringcompany²⁰¹⁴⁻¹⁸
Awarded by The Hong Kong Council of Social Service
香港社會服務聯會頒發



CONTENTS

| | |
|---|----|
| CORPORATE INFORMATION | 2 |
| CHAIRMAN'S STATEMENT | 3 |
| MANAGEMENT DISCUSSION AND ANALYSIS | 6 |
| BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT | 10 |
| REPORT OF THE DIRECTORS | 12 |
| CORPORATE GOVERNANCE REPORT | 19 |
| INDEPENDENT AUDITOR'S REPORT | 28 |
| CONSOLIDATED INCOME STATEMENT | 33 |
| CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME | 34 |
| CONSOLIDATED BALANCE SHEET | 35 |
| CONSOLIDATED STATEMENT OF CASH FLOWS | 37 |
| CONSOLIDATED STATEMENT OF CHANGES IN EQUITY | 38 |
| NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS | 39 |

Corporate Information

BOARD OF DIRECTORS

Chairman

Mr. LO Yuen Yat

Executive Directors

Mr. XIN Shulin

Mr. YEUNG Wai Kin

Non-executive Director

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

Independent Non-executive Directors

Prof. WOO Chia-Wei

Mr. LIU Ji

Mr. YU Qihao

Mr. ZHOU Xiaohe

NOMINATION COMMITTEE

Prof. WOO Chia-Wei (*Chairman*)

Mr. LO Yuen Yat

Mr. YU Qihao

Mr. ZHOU Xiaohe

REMUNERATION COMMITTEE

Mr. ZHOU Xiaohe (*Chairman*)

Mr. LO Yuen Yat

Prof. WOO Chia-Wei

Mr. YU Qihao

AUDIT COMMITTEE

Mr. YU Qihao (*Chairman*)

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

Prof. WOO Chia-Wei

Mr. LIU Ji

Mr. ZHOU Xiaohe

COMPANY SECRETARY

Mr. YEUNG Wai Kin

AUDITOR

PricewaterhouseCoopers

Certified Public Accountants

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited

Bank of Communications Co., Ltd., Hong Kong Branch

China CITIC Bank International Limited

China Construction Bank (Asia) Corporation Limited

China Construction Bank Corporation,

Hong Kong Branch

Dah Sing Bank, Limited

Standard Chartered Bank (Hong Kong) Limited

REGISTERED OFFICE

Room 1903, Wing On House

71 Des Voeux Road Central

Hong Kong

Telephone: (852) 2522 2101

Fax: (852) 2810 6789

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

Website: www.firstshanghai.com.hk

REGISTRARS & TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited

17th Floor, Hopewell Centre

183 Queen's Road East

Hong Kong

STOCK CODE

Stock Code on The Stock Exchange of

Hong Kong Limited: 227

Chairman's Statement

On behalf of the Board, I hereby present the Group's annual report and audited consolidated financial statements for the year ended 31st December 2017.

MARKET OVERVIEW

2017 experienced a robust economic recovery across the world. In the US, domestic demand as well as labour market has reported significant improvement since the Trump's presidency. The US Federal Reserve Board implemented interest rate hike in gradual pace. Strong corporate earnings, optimism over tax reform and accommodative monetary policy has helped boost investment sentiment in the financial market. Most major indexes hit record highs during the year. In Europe, despite that negative impact of Brexit began to emerge, general economic outlook demonstrated optimism with continued supportive monetary policies. Japan has also experienced export recovery and ease on deflation worries. However, geopolitical tensions in North Korea and the Middle East and political uncertainties in various European countries did increase uncertainties to the financial market.

In Mainland, with continuous intensifying on the "supply-side structural reforms" and the steady growth in investment, consumption as well as foreign trade tracking to improvement on external demand, the economy experienced a steady and healthy development in 2017. Real GDP growth of 6.9% surpassed the annual economic growth target. Financial market rebounded amid stronger Renminbi and solid corporate earnings. However, the market gain was dampened with worries about price valuation, risk on increasing debt and the tightening and deleveraging measures implemented by the Central Government.

During the year, benefited from the economic improvement in Mainland, and the continuous growth on local demand and tourism, Hong Kong has also reported notable economic growth. Amid optimism about economic fundamentals, investment sentiment was boosted and the financial market outperformed major overseas markets. Significant influx of international capital as well as the southbound fund flow from Mainland uplifted trading volume to the financial market. Hang Seng Index hit over 30,000 points during the year since 2008. However, market outlook was clouded by concerns on property valuation, sustainability of market liquidity as well as regional geopolitical tensions.

BUSINESS OVERVIEW

The Group adheres to its strategic business model and dedicates its efforts and resources to accelerating growth in various major business sectors, including Financial Services Sector, Property and Hotel Sector, Medical and Healthcare Sector and Direct Investment Sector. For the year ended 31st December 2017, the Group recorded a net profit and basic earnings per share attributable to shareholders of approximately HK\$62 million and HK4.37 cents respectively, as compared with a net loss and basic losses per share attributable to shareholders of approximately HK\$50 million and HK3.52 cents respectively in 2016.

In 2017, Financial Services Sector witnessed a bullish securities market. Market sentiment was optimistic with strong capital liquidity and concrete economic fundamentals. The Group has recorded satisfactory growth from both brokerage and asset management businesses. With significant increase in average daily turnover, revenue from brokerage business increased, despite that market gains were concentrated only in a few large-cap technology and financial stocks. However, revenue from global commodities brokerage business reported slight reduction with market volatility. Our margin financing business, continued to be one of our major income generator, remained steady with increase in portfolio size, despite slight reduction on interest rate due to keen competition. With efforts from our professional research and asset management teams, performance from securities trading was outstanding with encouraging gain for the year of 2017. While devoted to providing comprehensive financial services to our brokerage customers, we will continue to widen our product range and service scope so as to align ourselves with the business growth.

Chairman's Statement

In 2017, under the new regulation situation, our corporate finance business is facing a challenging year. We were engaged by numerous renowned Hong Kong listed companies to act as financial adviser and independent financial adviser for cases including but not limited to general offer, acquisitions and disposals, and a variety of continuing connected transactions. With market concern in strengthening regulation on listing in Hong Kong, IPO transactions and fund raising activities were delayed, especially for sizeable deals. Yet our experienced professional team was able to complete a sizeable general offer for a listed company on the Main Board and this had generated a significant increase in advisory fee income for the year. This impact was partially offset by a slight reduction in sponsorship fee generated from various IPO cases with slight delay in schedule to 2018. Corporate finance service is part of the extensive financial services we offer. Our corporate finance division and other divisions will continue to generate synergy and strive for greater success.

The PRC property market remained an important force in promoting a steady macroeconomic growth, as a whole maintained a stable development in 2017. The market realized a clear differentiation in terms of region during the year. Overall sales of the first and second-tier cities decreased due to tight industrial measures amid the government policy to stabilize general property price. On the other hand, the third and fourth-tier cities were still struggling under the de-stocking stage. During the year, the Group was still hindered by the limitation on product mixture. Impacted by delay in construction progress of the development project in Huangshan, sales of property was underperformed. However, operating results of this Sector improved with record on property revaluation gain.

In 2017, we have explored to the medical and healthcare business by setting up a brand-new medical centre named the International Medical Centre ("IMC") with total gross area of 53,500 ft² in Central, Hong Kong. IMC targets to provide quality medical and healthcare services ranging from day surgery (including minor surgical treatment and endoscopy services), imaging diagnosis (including CT, MRI, ultrasound, and mammography), body check-up, specialists consultation to various other kinds of medical services. The imaging centre, check-up centre and day surgery centre in IMC commenced business since late 2017 while several specialist clinics are still under set up stage. We target to complete all the renovation work and business set up in IMC so as to commence full scope of medical services within 2018.

We will continue to look for new direct investment opportunities focusing on medical healthcare business. With concrete and strong market demand for quality and high standard medical services, both from Hong Kong and Mainland, we are confident with the continuous growth of the medical healthcare business.

PROSPECTS

Looking ahead to 2018, we expect the global economic growth will extend while market volatility will increase. Major concerns which will affect global economic growth include challenges on the fiscal and monetary policies implemented by the US, geopolitical risks in North Korea and the Middle East, and possibility of trade protection sentiment. The pace of the US Fed interest rate hike and the trend of US dollar and thus global capital flow will also play an important role to the trend on financial market and the sentiments of financial investment.

In China, we expect the Central Government will continue to deepen its supply-side reforms and further implement various measures to deleverage financial risk so as to sustain a steady economic growth rate. With the implementation of listing reform by the Stock Exchange of Hong Kong, the expectation of various large IPOs and the extension of Stock Connect, we are conservatively optimistic towards the Hong Kong financial market in 2018. We will closely keep up with the market segments so as to capture business growth opportunities and control potential market risk.

Our Financial Service Sector will continue to maintain a cautious and proactive approach regarding the credit control of our margin financing business, continue to enhance our online trading platform, and widen our product scope and customer base to cope with market situation. Benefited from experienced expertise and sound reputation in the industry, together with the synergies brought forward by the full range of financial services offered by the Group including brokerage, asset management, financial advisory and IPO sponsorships, we will continue to enhance our service and strengthen our business platform for further development.

Regarding the Medical and Healthcare Sector, we are optimistic on the business development of private healthcare in Hong Kong with the tight resource allocated to public healthcare services and the increasing health consciousness of people. We will push forward to meet the growing demand by strengthening our operational team and IT platform so as to optimize the efficiency and effectiveness of our newly set up medical centre. We will also continue to work with insurance companies to design comprehensive healthcare solutions, expand our scope of services to facilitate the market demand and adapt to the new technologies in order to provide high quality and comprehensive services to the community.

We will also consistently push forward our existing investment strategy, with focus on healthcare sector, to further expand our Direct Investment business. We will also continue to seek future opportunities to enlarge our presence in industries with advantage synergies aiming to optimize returns to the Company and its shareholders.

APPRECIATION

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

LO Yuen Yat

Chairman

Hong Kong, 23rd March 2018

Management Discussion and Analysis

FINANCIAL REVIEW

Overview

For the year ended 31st December 2017, the Group recorded a net profit and basic earnings per share attributable to shareholders of approximately HK\$62 million and HK4.37 cents respectively, as compared with a net loss and basic losses per share attributable to shareholders of approximately HK\$50 million and HK3.52 cents respectively in 2016. The result of the year was turnaround with the absence of recognition of a significant one-off accounting loss on disposal of a listed associated company, China Assets (Holdings) Limited (stock code: 170). It was further improved with increased commission income from stock brokerage business tracking with the booming market turnover and thanks to the outstanding performance of our asset management team, which enabled us to capture the investment opportunities and recorded encouraging results on securities trading. In addition, recovery of PRC property market has led to an increase in revaluation gains of our investment properties. However, these impacts were partially offset by the rental expenses incurred during the pre-operating stage of our medical centre. Revenue of the Group was approximately HK\$446 million, increased by 14% as compared to 2016 due to a rise in revenue from stock brokerage business. Total net assets of the Group raised slightly by 3% from approximately HK\$2,780 million in 2016 to approximately HK\$2,862 million in 2017.

Financial Services

The Group's Financial Services Sector engages in a full range of financial services including securities investment, securities broking, margin financing, corporate finance, underwriting and placements and asset management. Operating profit reported from Financial Services Sector increased by 18% from 2016. This was mainly due to robust of trading activities in Hong Kong stock market.

During the reporting year, benefited from the improved profitability of most Hong Kong listed companies and listing of certain mega size IPOs in Hong Kong, capital funds flooded into the Hong Kong stock market and boosted trading activities significantly, especially in the second half of 2017. The average daily market turnover increased by 31% from HK\$67 billion in 2016 to HK\$88 billion in 2017. Our brokerage business with wide customer base, has captured the market trend, and reported an increase in brokerage commission income by 37% in 2017. In addition, with the improved market sentiment and growing momentum, our asset management team was able to capture the investment opportunities and generated significant trading gain on securities investment.

Regarding our corporate finance business, we continued to focus on financial advisory cases during the reporting year. In 2017, eighteen financial advisory cases and one general offer case were completed. In addition, five IPO cases were under processing of which two is about to launch. Income from advisory services reduced slightly by 5% as a result of decrease in total number of financial advisory transactions and slight drops in sponsorship fee income. These impacts were partially offset with the completion of the general offer case.

Property and Hotel

The Group's Property and Hotel Sector primarily involves in property development, property investment, property management, hotel and golf operation. Currently we participate in development of various kinds of properties, including residential, service apartment, commercial office, industrial office, hotel and recreation resort. Most of them are located at the third and fourth-tier cities in the Mainland. During 2017, operating profit from Property and Hotel Sector amounted to HK\$29 million was recorded, as compared to an operating loss in 2016. The improved result was mainly attributable to the absence of impairment provision for certain properties held for sale made in 2016. On the other hand, increase in revaluation gains of investment properties held by the Group was reported with recovery on general selling price.

As at 31st December 2017, the Group held seven property investment and development projects with total GFA as summarised below:

| Location | Product nature | Expected completion date (Year) | % of interest attributable to the Group | Total GFA (sq.m.) | Accumulated area sold (sq.m.) |
|--|-----------------------------------|---------------------------------|---|-------------------|-------------------------------|
| Fuhai Business Park (Phase 3), No. 289 Bisheng Road, Pudong District, Shanghai, PRC* | Office and commercial | Completed | 50% | 56,000 | 27,000 |
| Elite Place, No. 588 Chuangye Road, Kunshan Development Area, Kunshan, Suzhou City, Jiangsu Province, PRC* | Residential | Completed | 70% | 55,000 | 47,000 |
| First Shanghai Plaza, No.19 Gaolang Road, Wuxi New District, Wuxi City, Jiangsu Province, PRC* | Hotel, commercial and apartment | Completed | 100% | 95,000 | 12,000 |
| Singapore International Park, No.89 Xingchuang Fourth Road, Wuxi New District, Wuxi City, Jiangsu Province, PRC* | Office and industrial | | | | |
| – Phase I | | Completed | 70% | 38,000 | 20,000 |
| – Phase II | | Completed | 70% | 31,000 | – |
| – Phase III | | Completed | 70% | 35,000 | – |
| Fenghuang Road Huangshan District, Huangshan, Anhui, PRC | Residential and recreation resort | | | | |
| – Phase A | | 2018 | 100% | 12,000 | – |
| – Phase B | | 2018 | 100% | 23,000 | – |
| Ru Shan Hu, Eastern side of Chang Jiang Water Reservoir, Zhongshan, Guangdong, PRC | Residential and recreation resort | 2019 | 99.99% | 64,000 | – |
| Section E 589 & Section E 628, Commune de Presles, L'Isle Adam, France | Hotel and recreation resort | 2018 | 100% | 6,000 | – |
| Total | | | | 415,000 | 106,000 |

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

Management Discussion and Analysis

During 2017, the Central Government continued to promote steady macroeconomic growth, and different industrial policies were adopted by different cities. The property market in the first and second-tier cities with strong rigid demand, had seen implementation of tougher tightening policies. For the third and fourth-tier cities, sales volume increased in some cities while overall market was still hindered under the de-stocking stage. Revenue from sale of properties decreased by 41% as compared to 2016 due to sluggish property market at region where our property development projects located. In the coming year, we will continue to adjust our product mix while reducing inventory level is still the key target of the Group.

During the reporting year, our property investment and management business, one of the steady income generators of the Group, reported an increase in revenue by 13% as compared to 2016. Investment properties held by the Group reported an increase in fair value gains on valuation by 98% as compared to 2016, marked to the general increase in property prices.

Hotel and golf operation reported an increase in revenue by 6% in 2017 as compared to 2016. It was mainly attributable to a rise in occupancy rate, though partially offset by a reduction in average room revenue due to a drop in room rates in view of keen market competition.

Medical and Healthcare

In 2017, the Group entered into the Medical and Healthcare Sector by setting up a medical centre in Central, aiming at providing one-stop integrated medical services to patients from Hong Kong and Chinese Mainland. Our imaging centre, check-up centre and day surgery centre commenced business since late 2017 and hence only generated limited revenue in 2017 while significant rental expenses and staff cost had incurred. Revenue and operating loss amounted to HK\$1 million and HK\$70 million were recorded respectively.

Direct Investment

The Group aims to explore profitable investment opportunities in various industries so as to optimize returns to its shareholders. In 2017, operating loss reduced by 94% as compared to 2016. It was mainly attributable to the absence of a significant one-off accounting loss on disposal of China Assets, amounted to approximately HK\$118 million.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

The Group relies principally on its internal financial resources to fund its operations and investment activities. Bank and other loans will be raised to meet the different demands of our property projects, as well as margin financing and direct investment business. As at 31st December 2017, the Group had raised bank and other loans of approximately HK\$647 million (2016: HK\$560 million) and held approximately HK\$271 million (2016: HK\$299 million) cash reserves. The gearing ratio (total borrowings to shareholders' fund) increased slightly to 22.6% (2016: 20.1%).

During the reporting year, there was no change on the Group's overall share capital structure. As at 31st December 2017, the total number of issued ordinary shares was 1,418,973,012 shares (2016: 1,418,973,012 shares).

The Group's licensed subsidiaries are subject to various statutory capital requirements in accordance with the Securities and Futures (Financial Resources) Rules (Cap. 571N). During the financial year ended 31st December 2017, all licensed corporations within the Group complied with their respective requirements.

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

MATERIAL ACQUISITION AND DISPOSAL

During the year, the Group had no material acquisitions, disposals and significant investments.

CHARGES OF GROUP ASSETS

The Group has pledged freehold land, properties, construction-in-progress, investment properties, leasehold land and land use rights, properties under development and properties held for sale with an aggregate net carrying value of approximately HK\$993 million (2016: HK\$828 million) and fixed deposits of approximately HK\$39 million (2016: HK\$36 million) against its bank loans, general banking facilities and bank guarantee. The banking facilities amounted approximately HK\$228 million (2016: HK\$229 million) had been utilised.

CONTINGENT LIABILITIES

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

As at 31st December 2017, total contingent liabilities relating to these guarantees amounted to approximately HK\$8 million (2016: HK\$2 million).

HUMAN RESOURCES

The objectives of the Group's human resources management is to reward and recognise performing staff through a competitive remuneration package and a sound performance appraisal system with appropriate incentives, and to promote career development and progression within the Group. Employees' remuneration is performance based and is reviewed annually. In addition to basic salary payments, other staff benefits include discretionary bonus, medical schemes, defined contribution provident fund schemes and employee share option scheme. Staff are enrolled in external and internal training courses or seminars in order to update their professional knowledge and technical skills so as to increase their awareness of market development and business trend. As at 31st December 2017, the Group employed 672 staff, of whom 485 are based in Mainland China. The staff costs of the Group for the year ended 31st December 2017 amounted to approximately HK\$200 million (2016: HK\$175 million).

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. LO Yuen Yat (72). Appointed as Managing Director of the Company in 1993. Mr. Lo joined the Company in 1993 and is currently the Chairman of the Company. Previously, Mr. Lo was the senior policy researcher at China's National Research Centre for Science & Technology and Social Development, and worked at the State Science & Technology Commission, Ministry of Communications and Railway Ministry of the PRC. Mr. Lo graduated from Shanghai Fudan University and obtained his master degree from Harvard University.

Mr. XIN Shulin (64). Appointed as Director of the Company in 1998. Mr. Xin joined the Company in 1994 as Executive Vice President in charge of direct investment and property development business including luxury hotel and full service hospital. He graduated from Lanzhou University in 1982 and obtained his MBA degree from University of Denver, USA in 1992.

Mr. YEUNG Wai Kin (56). Appointed as Director of the Company in 1998. Mr. Yeung is also Chief Financial Officer and Company Secretary of the Company. He joined the Company in 1993 and has over 30 years experience in auditing, finance and management positions. He is also director of China Assets (Holdings) Limited. Mr. Yeung possesses professional membership of the Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants and the Taxation Institute of Hong Kong. He has a bachelor's degree in law from Peking University.

NON-EXECUTIVE DIRECTOR

Mr. KWOK Lam Kwong, Larry, S.B.S., J.P. (62). Appointed as Independent Non-executive Director of the Company in 1994 and has been re-designated to Non-executive Director of the Company in 2005. Mr. Kwok is a practising solicitor in Hong Kong and is qualified to practise as a solicitor in Australia, England and Wales and Singapore. He is also qualified as a certified public accountant in Hong Kong and Australia and a Chartered Accountant in England and Wales. He graduated from the University of Sydney, Australia with bachelor's degrees in economics and laws respectively as well as a master's degree in law. He also obtained the Advanced Management Program Diploma from the Harvard Business School.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Professor WOO Chia-Wei (80). Appointed as Independent Non-executive Director of the Company in 1993. Prof. Woo is currently Senior Advisor to Shui On Holdings Limited, and President Emeritus of the Hong Kong University of Science and Technology. Previously he was President, Provost, Department Chairman, and Professor of several prominent universities in the United States of America. He is also an independent non-executive director of Shanghai Industrial Holdings Limited.

Mr. LIU Ji (82). Appointed as Independent Non-executive Director of the Company in 2004. Mr. Liu is the Honorary President of China Europe International Business School in Shanghai. He served as Deputy Chairman, Research Fellow and Member of the Academic Board, The Chinese Academy of Social Sciences, and Executive President of China Europe International Business School. Mr. Liu graduated from the Department of Power Mechanical Engineering, Qinghua University, Beijing. Mr. Liu is also an independent director of O2micro International Limited, a NASDAQ-listed company.

Biographical Details of Directors and Senior Management

Mr. YU Qihao (71). Appointed as Independent Non-Executive Director of the Company in 2005. Mr. Yu is a certified public accountant, PRC. He graduated from Shanghai University of Finance and Economics. From 1981 to 1991, Mr. Yu worked as a certified public accountant in an accounting firm in Shanghai. From 1992 to 1998, he acted as the assistant president of Shanghai Industrial Investment (Holdings) Company Limited. Mr. Yu also worked as an executive director from 1995 to 1997 and a non-executive director from 1997 to 1998 of Shenyin Wanguo (H.K.) Limited. During the period from 2001 to 2006, Mr Yu was an advisor of Deloitte Touche Tohmatsu CPA Ltd in Shanghai.

Mr. ZHOU Xiaohe (65). Appointed as Independent Non-executive Director of the Company in 2007. Mr. Zhou has extensive experience in investment and financing industries. He was educated in China and graduated from the Beijing Industrial University major in Computer Automation. Mr. Zhou was a non-executive director of the Company from 18th May 1995 to 16th June 1998 and of China Assets (Holdings) Limited from 27th March 1995 to 28th November 1997.

SENIOR MANAGEMENT

Mr. QIU Hong (48). Joined the Group in 2000 and is currently the Chief Executive Officer of First Shanghai Financial Holding Limited. Mr. Qiu is responsible for the management and business development of the Group's financial service business. Prior to joining the Group, Mr. Qiu had worked for an international audit and consulting company and was responsible for the audit, strategic planning and corporate financing activities. With extensive experience and expertise in financial industry, Mr. Qiu is specializing in corporate financing, stockbrokerage and investment in Hong Kong and Mainland China. Mr. Qiu holds a Bachelor's Degree in Economics from the Zhong Shan University and a Master of Philosophy (Economics) degree from the Chinese University of Hong Kong.

Mr. CHING Ah Chye (68). Joined the Group in 2001 and is currently the Managing Director of First Shanghai Securities Limited and First Shanghai Futures Limited. He is also a Responsible Officer of both the above-mentioned companies under the Securities and Futures Ordinance. Mr. Ching is responsible for management of overall operation and development of dealing in securities and futures. Mr. Ching holds a Bachelor of Business Administration degree from the University of East Asia, Macau (currently known as the University of Macau). He started his career in several financial institutions and has more than 30 years experience in the securities industry.

Report of the Directors

The Board submits herewith their report together with the audited consolidated financial statements for the year ended 31st December 2017.

PRINCIPAL ACTIVITIES AND GEOGRAPHICAL ANALYSIS OF OPERATIONS

The principal activity of the Company is investment holding. The activities of its principal subsidiaries and joint ventures are set out in Notes 18 and 20 to the consolidated financial statements respectively.

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

RESULTS

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

DIVIDEND

The Board does not recommend the payment of a final dividend (2016: HK\$Nil) for the year ended 31st December 2017.

SHARE CAPITAL

Details of the movements in share capital of the Company for the year ended 31st December 2017 are set out in Note 32 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

Distributable reserves of the Company as at 31st December 2017, calculated pursuant to Part 6 of the Hong Kong Companies Ordinance (Cap. 622), amounted to HK\$512,281,000 (2016: HK\$443,543,000).

DONATIONS

Charitable and other donations made by the Group during the year amounted to HK\$39,000 (2016: HK\$53,000).

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

The Company has not redeemed any of its securities and neither the Company nor any of its subsidiaries purchased or sold any of its securities listed on The Stock Exchange of Hong Kong Limited ("Stock Exchange") during the year ended 31st December 2017.

DIRECTORS

(a) Directors of the Company

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

- Mr. LO Yuen Yat
- Mr. XIN Shulin
- Mr. YEUNG Wai Kin
- * Mr. KWOK Lam Kwong, Larry, *S.B.S., J.P.*
- ** Prof. WOO Chia-Wei
- ** Mr. LIU Ji
- ** Mr. YU Qihao
- ** Mr. ZHOU Xiaohe

* *Mr. KWOK Lam Kwong, Larry, S.B.S., J.P. is a non-executive director of the Company.*

** *Prof. WOO Chia-Wei, Mr. LIU Ji, Mr. YU Qihao and Mr. ZHOU Xiaohe are independent non-executive directors of the Company.*

Mr. XIN Shulin, Mr. LIU Ji and Mr. ZHOU Xiaohe retire in accordance with the Company's Articles of Association and being eligible, offer themselves for re-election.

(b) Directors of the Company's subsidiaries

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

DIRECTORS' SERVICE CONTRACTS

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

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

No transactions, arrangements and contracts of significance in relation to the Group's business to which the Company or its subsidiaries was a party, and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

PERMITTED INDEMNITY PROVISION

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

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

As at 31st December 2017, the interests of each director and chief executive in the shares and underlying shares of the Company or any of its associated corporations (within the meaning of the Securities and Futures Ordinance ("SFO")) as recorded in the register required to be kept by the Company under Section 352 of SFO or as notified to the Company were as follows:

Interests in respect of the Company:

| Directors | | Number of shares and underlying shares held | | | % of issued share capital of the Company |
|---------------------------------|---------------|---|---------------------|-------------|--|
| | | Personal interests | Corporate interests | Total | |
| Mr. LO Yuen Yat (<i>Note</i>) | Long position | 97,549,636 | 320,626,500 | 418,176,136 | 29.47% |
| Mr. YEUNG Wai Kin | Long position | 11,872,304 | – | 11,872,304 | 0.84% |
| Mr. ZHOU Xiaohe | Long position | 160,000 | – | 160,000 | 0.01% |

Note: 72,952,000 shares and 247,674,500 shares are held by Kinmoss Enterprises Limited ("Kinmoss") and China Assets (Holdings) Limited ("CAHL") respectively. Kinmoss is a company wholly owned by Mr. LO Yuen Yat, while CAHL is a company 40% indirectly owned by Mr. LO Yuen Yat through New Synergies Investments Company.

Saved as disclosed above, as at 31st December 2017, none of the directors and chief executives (including their spouse and children under 18 years of age) had any interest in shares, underlying shares and debentures of the Company, its specified undertaking and its other associated corporation required to be disclosed pursuant to the SFO and the Hong Kong Companies Ordinance (Cap. 622).

SUBSTANTIAL SHAREHOLDERS

The register of substantial shareholders maintained under Section 336 of the SFO shows that as at 31st December 2017, the Company had been notified of the following substantial shareholder's interests, holding 5% or more of the Company's issued share capital. These interests are in addition to those disclosed above in respect of the directors.

Ordinary shares in the Company:

| | | Personal interests | Family interests | Corporate interests | Other interests | Total | % of issued share capital of the Company |
|---|---------------|--------------------|------------------|---------------------|-----------------|-------------|--|
| Ms. CHAN Chiu, Joy ("Ms. Chan") (Note 1 & 2) | Long position | 56,008,000 | 12,432,000 | 5,568,000 | 63,640,000 | 137,648,000 | 9.70% |
| Mr. YIN Jian, Alexander ("Mr. Yin") (Note 1 & 2) | Long position | 12,432,000 | 56,008,000 | 5,568,000 | 63,640,000 | 137,648,000 | 9.70% |

Notes:

- (1) 5,568,000 shares are held by Richcombe Investments Limited, a company jointly owned by Ms. Chan and Mr. Yin with 50% equity interests each.
- (2) 63,640,000 shares are held by The Golden Bridge Settlement, a trust with Ms. Chan and Mr. Yin as beneficiaries.

SHARE OPTIONS

On 24th May 2002, the shareholders of the Company approved the termination of the 1994 Share Option Scheme and the adoption of a new scheme (the "2002 Scheme") to comply with the new requirements of Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"). Due to the expiry of the 2002 Scheme, the shareholders of the Company approved a new share option scheme (the "2014 Scheme") on 23rd May 2014. No share options were granted under the 2014 Scheme during the year. The purpose of the 2014 Scheme is to assist in recruiting, retaining and motivating key staff members. Under the terms of the 2014 Scheme, the directors have the discretion to grant to employees and directors of any member of the Group to subscribe for shares in the Company.

The Company can issue options so that the total number of shares that may be issued upon exercise of all options to be granted under the 2014 Scheme does not in aggregate exceed 10% of the shares in issue on the date of approval of the 2014 Scheme. The Company may renew this limit at any time, subject to shareholders' approval and the issue of a circular and in accordance with the Listing Rules provided that the number of shares to be issued upon exercise of all outstanding options granted and yet to be exercised under the 2014 Scheme does not exceed 30% of the shares in issue from time to time.

Report of the Directors

As at 31st December 2017, options to subscribe for a total of 139,891,301 ordinary shares were subject to be granted under the 2014 Scheme which represents approximately 10% of the issued ordinary shares of the Company.

The total number of shares issued and which may fall to be issued upon exercise of the options granted under the 2014 Scheme to each participant in any 12-month period shall not exceed 1 percent of the issued share capital of the Company for the time being.

The consideration for the grant of options is HK\$1.00. The 2002 Scheme and 2014 Scheme participant is entitled to subscribe for shares during such period as may be determined by the directors (which shall be less than 10 years from the date of the grant of the relevant option and commences not less than six months after the date of grant) at the price to be determined by the Board but not less than the highest of the average of the official closing prices of the shares on the Stock Exchange on the five trading days immediately preceding the date on which the option is granted and the official closing price of the shares on the Stock Exchange on the date of grant.

Details of share options remain outstanding as at 31st December 2017 are as follows:

| | Options held at 1st January 2017 | Options lapsed during the year | Options held at 31st December 2017 | Exercise price HK\$ | Date of grant | Exercise period | Vesting period |
|---|----------------------------------|--------------------------------|------------------------------------|---------------------|---------------|---------------------------|---------------------------|
| Directors | | | | | | | |
| Mr. LO Yuen Yat | 11,944,000 | (11,944,000) | – | 1.950 | 23/05/2007 | 23/11/2007– 22/05/2017 | 23/05/2007– 22/11/2007 |
| Mr. XIN Shulin | 8,032,000 | (8,032,000) | – | 1.950 | 23/05/2007 | 23/11/2007– 22/05/2017 | 23/05/2007– 22/11/2007 |
| Mr. YEUNG Wai Kin | 8,032,000 | (8,032,000) | – | 1.950 | 23/05/2007 | 23/11/2007– 22/05/2017 | 23/05/2007– 22/11/2007 |
| Mr. KWOK Lam Kwong, Larry, <i>S.B.S., J.P.</i> | 1,000,000 | (1,000,000) | – | 1.950 | 23/05/2007 | 23/11/2007– 22/05/2017 | 23/05/2007– 22/11/2007 |
| Prof. WOO Chia-Wei | 1,000,000 | (1,000,000) | – | 1.950 | 23/05/2007 | 23/11/2007– 22/05/2017 | 23/05/2007– 22/11/2007 |
| Mr. LIU Ji | 500,000 | (500,000) | – | 1.950 | 23/05/2007 | 23/11/2007– 22/05/2017 | 23/05/2007– 22/11/2007 |
| Employees | 1,000,000 | (1,000,000) | – | 1.950 | 23/05/2007 | 23/11/2007– 22/05/2017 | 23/05/2007– 22/11/2007 |
| | <u>31,508,000</u> | <u>(31,508,000)</u> | <u>–</u> | | | | |

Notes:

- (1) *During the year, 31,508,000 share options were lapsed under the 2002 Scheme. No share options were granted or exercised under the 2002 Scheme and the 2014 Scheme during the year ended 31st December 2017.*
- (2) *No share options granted under the 2002 Scheme were cancelled during the year ended 31st December 2017.*
- (3) *The accounting policy adopted for share options is consistent with that as described in the consolidated financial statements for the year ended 31st December 2017.*

MANAGEMENT CONTRACTS

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

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate percentages of sales and purchases attributable to the Group's five largest customers and suppliers are both less than 30% for 2017 and 2016.

CONNECTED TRANSACTION

The Company did not have any connected transactions which need to be disclosed during the year ended 31st December 2017.

SUFFICIENCY OF PUBLIC FLOAT

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

BUSINESS REVIEW

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

Report of the Directors

FIVE YEAR FINANCIAL SUMMARY

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

| | 2017 HK\$'000 | 2016 HK\$'000 | 2015 HK\$'000 | 2014 HK\$'000 | 2013 HK\$'000 |
|-------------------------------|-------------------|------------------|------------------|------------------|------------------|
| Revenue | 446,445 | 390,792 | 491,923 | 501,630 | 459,579 |
| Profit/(loss) attributable to | | | | | |
| – shareholders | 61,944 | (49,909) | 134,862 | 211,091 | 42,540 |
| – non-controlling interests | 2,362 | (6,051) | (205) | (5,735) | (682) |
| Earnings/(losses) per share | | | | | |
| – basic | 4.37 cents | (3.52) cents | 9.61 cents | 15.09 cents | 3.04 cents |
| – fully diluted | 4.37 cents | (3.52) cents | 9.58 cents | 15.00 cents | 3.03 cents |
| Total current assets | 5,551,457 | 5,541,822 | 5,026,668 | 4,090,777 | 3,212,524 |
| Total assets | 7,253,851 | 6,960,638 | 6,912,554 | 6,160,867 | 4,946,281 |
| Total current liabilities | 4,101,095 | 3,911,217 | 3,481,363 | 2,529,809 | 1,814,076 |
| Total liabilities | 4,392,317 | 4,180,768 | 3,744,774 | 2,875,916 | 2,198,746 |
| Total equity | 2,861,534 | 2,779,870 | 3,167,780 | 3,284,951 | 2,747,535 |
| Gearing ratio | 22.6% | 20.1% | 12.0% | 11.8% | 14.2% |

AUDITOR

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

By order of the Board

LO Yuen Yat

Chairman

Hong Kong, 23rd March 2018

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

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

The Company has complied with all the code provisions as set out in the CG Code for the year ended 31st December 2017, except for the deviation from code provision A.2.1 in respect of segregation of the roles of chairman and chief executive officer. Such deviation will be discussed in the relevant sections of this report in more details. The Board will continuously review and improve the corporate governance practices and standards of the Company to ensure that business activities and decision making processes are regulated in a proper and prudent manner.

BOARD OF DIRECTORS

Role and responsibility of the Board

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

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

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

Board composition

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

Corporate Governance Report

The Board of the Company comprises:

| | |
|--------------------------------------|--|
| Executive Directors: | Mr. LO Yuen Yat (<i>Chairman</i>) Mr. XIN Shulin Mr. YEUNG Wai Kin |
| Non-executive Director: | Mr. KWOK Lam Kwong, Larry, <i>S.B.S., J.P.</i> |
| Independent Non-executive Directors: | Prof. WOO Chia-Wei Mr. LIU Ji Mr. YU Qihao Mr. ZHOU Xiaohe |

Chairman and chief executive officer

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

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

Non-executive directors

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

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

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

Appointment and re-election of directors

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

Continuous professional development of directors

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

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

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

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

Notes:

A – attending briefing sessions and/or seminars

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

Directors' securities transactions

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

Disclosure for remuneration of directors and senior management

Details of the remuneration of directors and senior management for the year ended 31st December 2017 are set out in Note 12 to the consolidated financial statements.

BOARD COMMITTEES

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

Nomination Committee

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

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

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

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

Remuneration Committee

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

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

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

During the reporting year, two meetings were held to discuss the remuneration policies and approve the remuneration packages of individual director and senior management of the Company.

Audit Committee

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

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

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

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

During the reporting year, there were three meetings held. The Audit Committee has reviewed the annual and interim consolidated financial statements, including the accounting principles and practices adopted by the Group, which was of the opinion that such reports were prepared in accordance with the applicable accounting standard and requirements. The Audit Committee met with the Company's external auditor during each of the committee meeting held in 2017 to liaise the Group's financial reporting and material financial matters.

ACCOUNTABILITY AND AUDIT

Financial reporting

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

Responsibility of external auditors

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

Remuneration of external auditor

Details of the remuneration of the Company's external auditor, PricewaterhouseCoopers, for the year ended 31st December 2017 is set out in Note 6 to the consolidated financial statements.

RISK MANAGEMENT AND INTERNAL CONTROLS

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

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

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

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

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

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

MEETINGS AND ATTENDANCE

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

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

| Name of director | Board meeting | Nomination Committee meeting | Remuneration Committee meeting | Audit Committee meeting | AGM |
|--|---------------|------------------------------|--------------------------------|-------------------------|-----|
| No. of meetings held during 2017 | 4 | 1 | 2 | 3 | 1 |
| Mr. LO Yuen Yat | 4 | 1 | 2 | n/a | 1 |
| Mr. XIN Shulin | 3 | n/a | n/a | n/a | 1 |
| Mr. YEUNG Wai Kin | 4 | n/a | n/a | n/a | 1 |
| Mr. KWOK Lam Kwong, Larry, <i>S.B.S., J.P.</i> | 4 | n/a | n/a | 3 | 1 |
| Prof. WOO Chia-Wei | 4 | 1 | 2 | 3 | 1 |
| Mr. LIU Ji | 4 | n/a | n/a | 3 | 1 |
| Mr. YU Qihao | 4 | 1 | 2 | 3 | 1 |
| Mr. ZHOU Xiaohe | 4 | 1 | 2 | 3 | 1 |

Mr. YEUNG Wai Kin attended all the Board/Board Committee meetings in 2017 in the capacity of Company Secretary of the Company.

COMPANY SECRETARY

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

COMMUNICATION WITH SHAREHOLDERS AND SHAREHOLDERS' RIGHT

Corporate communication policy

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

Information disclosure

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

General meetings with shareholders

The Company's annual general meeting provides a useful platform for direct communication between the Board and shareholders of the Company. The Company ensures that shareholders' views are communicated to the Board. The chairman of the annual general meeting proposes separate resolutions for each issue to be considered. The AGM was held on 26th May 2017. The Company's external auditor and all directors (including the Chairman of the Company and the chairmen (or other nominated committee member) of the audit, remuneration and nomination committees) have attended the AGM to answer questions from shareholders.

Shareholders' right

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

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

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

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

(B) Procedures for directing shareholders' enquiries to the board

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

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

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

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

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

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

CONSTITUTIONAL DOCUMENTS

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

Independent Auditor's Report



羅兵咸永道

TO THE MEMBERS OF FIRST SHANGHAI INVESTMENTS LIMITED

(incorporated in Hong Kong with limited liability)

OPINION

What we have audited

The consolidated financial statements of First Shanghai Investments Limited (the "Company") and its subsidiaries (the "Group") set out on pages 33 to 106, which comprise:

- the consolidated balance sheet as at 31st December 2017;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

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

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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

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

KEY AUDIT MATTERS

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

Key audit matters identified in our audit are summarised as follows:

- Impairment of properties under development and held for sale
- Recoverability of margin loans receivable

Key Audit Matter

Impairment of properties under development and held for sale

Refer to Notes 3(a) and 24 to the consolidated financial statements.

As at 31st December 2017, the Group's properties under development and properties held for sale amounted to HK\$319.7 million and HK\$312.7 million respectively.

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

Based on management's estimates, no provision has been made for the Group's properties under development and held for sale for the year ended 31st December 2017.

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

How our audit addressed the Key Audit Matter

We have performed the following procedures to address this key audit matter:

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

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

Key Audit Matter

Recoverability of margin loans receivable

Refer to Notes 3(b) and 22 to the consolidated financial statements.

As at 31st December 2017, margin loans receivable amounted to HK\$1,534.1 million.

These margin loans to third parties are bearing interest at commercial rates, secured by the underlying pledged listed securities and are repayable on demand.

Provisions for impairment of the margin loans is determined mainly based upon a detailed analysis of the fair value of the listed securities being collateralised.

Based on management's estimate, no provision has been made for the Group's margin loans receivable as at 31st December 2017.

We focused on this area due to the size of the margin loans and the judgements exercised by management in determining the provision for the margin loans.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

How our audit addressed the Key Audit Matter

We have performed the following procedures to address this key audit matter:

- (i) We understood, evaluated and validated the internal controls over the Group's process on margin loan approval, monitoring and collection.
- (ii) We evaluated management's assessment on recoverability of margin loans by testing on a sample basis, the fair value of the collaterals of the margin loans against the relevant market data.
- (iii) We agreed the holdings of the collaterals of margin loans by checking to Central Clearing and Settlement System reports.

Based on the procedures performed, we found management's estimates on the recoverability of margin loans receivable to be supportable by available evidence.

RESPONSIBILITIES OF DIRECTORS AND AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

Independent Auditor's Report

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Mak Tze Leung, William.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 23rd March 2018

Consolidated Income Statement

For the year ended 31st December 2017

| | Note | 2017 HK\$'000 | 2016 HK\$'000 |
|--|------|------------------|------------------|
| Revenue | 4 | 446,445 | 390,792 |
| Cost of sales | | (115,777) | (113,369) |
| Gross profit | | 330,668 | 277,423 |
| Other gains/(losses) – net | 5 | 51,166 | (102,433) |
| Selling, general and administrative expenses | | (320,503) | (231,087) |
| Operating profit/(loss) | 6 | 61,331 | (56,097) |
| Finance income | 7 | 25,090 | 22,144 |
| Finance costs | 7 | (22,401) | (17,222) |
| Finance income – net | 7 | 2,689 | 4,922 |
| Share of results of | | | |
| Associated company | 19 | – | (1,523) |
| Joint ventures | 20 | 13,619 | 16,854 |
| Profit/(loss) before taxation | | 77,639 | (35,844) |
| Taxation | 8(a) | (13,333) | (20,116) |
| Profit/(loss) for the year | | 64,306 | (55,960) |
| Attributable to: | | | |
| Shareholders of the Company | | 61,944 | (49,909) |
| Non-controlling interests | | 2,362 | (6,051) |
| | | 64,306 | (55,960) |
| Earnings/(losses) per share for profit/(loss) attributable to shareholders of the Company during the year | | | |
| – Basic | 9 | HK4.37 cents | HK(3.52) cents |
| – Diluted | 9 | HK4.37 cents | HK(3.52) cents |

The notes on pages 39 to 106 are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended 31st December 2017

| | 2017 HK\$'000 | 2016 HK\$'000 |
|---|------------------|------------------|
| Profit/(loss) for the year | 64,306 | (55,960) |
| Other comprehensive income/(loss) <i>Items that have been reclassified or may be subsequently reclassified to profit or loss</i> | | |
| – Fair value loss on available-for-sale financial assets | (70,626) | (36,505) |
| – Exchange reserve realised upon disposal of a joint venture | (3,373) | – |
| – Currency translation differences | 92,433 | (71,593) |
| – Share of post-acquisition reserves of an associated company | – | (53,463) |
| – Reserves realised upon disposal of an associated company | – | (157,843) |
| Other comprehensive income/(loss) for the year, net of tax | 18,434 | (319,404) |
| Total comprehensive income/(loss) for the year | 82,740 | (375,364) |
| Attributable to: | | |
| Shareholders of the Company | 75,500 | (364,401) |
| Non-controlling interests | 7,240 | (10,963) |
| | 82,740 | (375,364) |

The notes on pages 39 to 106 are an integral part of these consolidated financial statements.

Consolidated Balance Sheet

As at 31st December 2017

| | Note | 2017 HK\$'000 | 2016 HK\$'000 |
|---|------|------------------|------------------|
| Non-current assets | | | |
| Intangible assets | 14 | 2,126 | 2,126 |
| Property, plant and equipment | 15 | 608,417 | 383,519 |
| Investment properties | 16 | 566,029 | 481,441 |
| Leasehold land and land use rights | 17 | 45,636 | 45,733 |
| Investments in joint ventures | 20 | 224,037 | 239,323 |
| Deferred tax assets | 34 | 17,405 | 6,843 |
| Available-for-sale financial assets | 21 | 184,630 | 255,256 |
| Loans and advances | 22 | 3,750 | 4,575 |
| Finance lease receivables | 23 | 1,042 | – |
| Other non-current prepayments and deposits | 26 | 49,322 | – |
| Total non-current assets | | 1,702,394 | 1,418,816 |
| Current assets | | | |
| Inventories | 24 | 634,110 | 587,830 |
| Loans and advances | 22 | 1,534,062 | 1,314,308 |
| Trade receivables | 25 | 222,365 | 211,100 |
| Other receivables, prepayments and deposits | 26 | 70,630 | 47,224 |
| Finance lease receivables | 23 | 298 | – |
| Tax recoverable | 8(b) | 11,351 | 12,039 |
| Financial assets at fair value through profit or loss | 27 | 26,314 | 19,564 |
| Deposits with banks | 28 | 24,264 | 23,947 |
| Client trust bank balances | 29 | 2,781,688 | 3,050,357 |
| Cash and cash equivalents | 29 | 246,375 | 275,453 |
| Total current assets | | 5,551,457 | 5,541,822 |
| Current liabilities | | | |
| Trade and other payables | 30 | 3,629,814 | 3,537,436 |
| Tax payable | 8(b) | 29,758 | 27,606 |
| Borrowings | 31 | 441,523 | 346,175 |
| Total current liabilities | | 4,101,095 | 3,911,217 |
| Net current assets | | 1,450,362 | 1,630,605 |
| Total assets less current liabilities | | 3,152,756 | 3,049,421 |

Consolidated Balance Sheet

As at 31st December 2017

| | Note | 2017 HK\$'000 | 2016 HK\$'000 |
|--|------|------------------|------------------|
| Non-current liabilities | | | |
| Deferred tax liabilities | 34 | 67,226 | 56,026 |
| Borrowings | 31 | 205,764 | 213,525 |
| Other non-current liabilities | | 18,232 | – |
| Total non-current liabilities | | 291,222 | 269,551 |
| Net assets | | | |
| | | 2,861,534 | 2,779,870 |
| Equity | | | |
| Share capital | 32 | 1,162,940 | 1,162,940 |
| Reserves | 33 | 1,624,004 | 1,548,504 |
| Capital and reserves attributable to the Company's shareholders | | 2,786,944 | 2,711,444 |
| Non-controlling interests | | 74,590 | 68,426 |
| Total equity | | 2,861,534 | 2,779,870 |

On behalf of the Board

LO Yuen Yat
Director

YEUNG Wai Kin
Director

The notes on pages 39 to 106 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended 31st December 2017

| | Note | 2017 HK\$'000 | 2016 HK\$'000 |
|---|------|------------------|------------------|
| Cash flows from operating activities | | | |
| Net cash inflow/(outflow) from operating activities | 35 | 53,187 | (130,610) |
| Hong Kong profits tax paid | | (12,836) | (24,385) |
| Overseas taxation paid | | (2,778) | (2,214) |
| Net cash generated from/(used in) operating activities | | 37,573 | (157,209) |
| Cash flows from investing activities | | | |
| Interest received | | 22,103 | 16,977 |
| Purchase of property, plant and equipment | | (200,253) | (30,279) |
| Deposit paid for property, plant and equipment | | (135) | – |
| Proceeds from disposal of investment properties | | 13,985 | 8,249 |
| Proceeds from disposal of property, plant and equipment | | 278 | 74 |
| Proceeds from disposal of a joint venture | | 35,151 | – |
| Proceeds from disposal of an associated company | | – | 104,287 |
| Dividends received from a joint venture | | 5,632 | 8,642 |
| Increase in deposits with banks | | (317) | (21,140) |
| Receipt of loan repayment | | 3,092 | 6,957 |
| Net cash (used in)/generated from investing activities | | (120,464) | 93,767 |
| Cash flows from financing activities | | | |
| Interest paid | | (23,950) | (18,615) |
| Proceeds from borrowings | | 418,793 | 497,690 |
| Repayments of borrowings | | (346,748) | (300,049) |
| Dividend paid | | – | (14,190) |
| Dividend paid to non-controlling interests | | (1,076) | (2,096) |
| Issue of new shares on exercise of share options | | – | 3,740 |
| Net cash generated from financing activities | | 47,019 | 166,480 |
| Net (decrease)/increase in cash and cash equivalents | | | |
| Cash and cash equivalents at 1st January | | 274,929 | 176,589 |
| Exchange differences | | 7,318 | (4,698) |
| Cash and cash equivalents at 31st December | 29 | 246,375 | 274,929 |

The notes on pages 39 to 106 are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31st December 2017

| | Attributable to shareholders of the Company | | | | | | | Non-controlling interests | Total |
|---|---|---|-----------------------------|--|--|--|-------------------------------|---------------------------|------------------|
| | Share capital HK\$'000 | Employee share-based compensation reserve HK\$'000 | Capital reserve HK\$'000 | Assets revaluation reserve HK\$'000 | Investment revaluation reserve HK\$'000 | Exchange fluctuation reserve HK\$'000 | Retained earnings HK\$'000 | HK\$'000 | HK\$'000 |
| At 1st January 2017 | 1,162,940 | 34,383 | 38,213 | 12,334 | 194,850 | (4,646) | 1,273,370 | 68,426 | 2,779,870 |
| Profit for the year | - | - | - | - | - | - | 61,944 | 2,362 | 64,306 |
| Other comprehensive income | - | - | (165) | - | (70,626) | 84,182 | 165 | 4,878 | 18,434 |
| Total comprehensive income | - | - | (165) | - | (70,626) | 84,182 | 62,109 | 7,240 | 82,740 |
| Transfer of reserve upon lapse of share options | - | (34,383) | - | - | - | - | 34,383 | - | - |
| Dividend paid | - | - | - | - | - | - | - | (1,076) | (1,076) |
| Transfer from retained earnings | - | - | 210 | - | - | - | (210) | - | - |
| | - | (34,383) | 210 | - | - | - | 34,173 | (1,076) | (1,076) |
| At 31st December 2017 | 1,162,940 | - | 38,258 | 12,334 | 124,224 | 79,536 | 1,369,652 | 74,590 | 2,861,534 |

| | Attributable to shareholders of the Company | | | | | | | Non-controlling interests | Total |
|--|---|---|-----------------------------|--|--|--|-------------------------------|---------------------------|------------------|
| | Share capital HK\$'000 | Employee share-based compensation reserve HK\$'000 | Capital reserve HK\$'000 | Assets revaluation reserve HK\$'000 | Investment revaluation reserve HK\$'000 | Exchange fluctuation reserve HK\$'000 | Retained earnings HK\$'000 | HK\$'000 | HK\$'000 |
| At 1st January 2016 | 1,157,658 | 35,925 | 367,874 | 12,334 | 231,355 | 60,984 | 1,220,165 | 81,485 | 3,167,780 |
| Loss for the year | - | - | - | - | - | - | (49,909) | (6,051) | (55,960) |
| Other comprehensive loss | - | - | (330,003) | - | (36,505) | (65,630) | 117,646 | (4,912) | (319,404) |
| Total comprehensive loss | - | - | (330,003) | - | (36,505) | (65,630) | 67,737 | (10,963) | (375,364) |
| Issue of new shares on exercise of share options | 5,282 | (1,542) | - | - | - | - | - | - | 3,740 |
| Dividend paid | - | - | - | - | - | - | (14,190) | (2,096) | (16,286) |
| Transfer from retained earnings | - | - | 342 | - | - | - | (342) | - | - |
| | 5,282 | (1,542) | 342 | - | - | - | (14,532) | (2,096) | (12,546) |
| At 31st December 2016 | 1,162,940 | 34,383 | 38,213 | 12,334 | 194,850 | (4,646) | 1,273,370 | 68,426 | 2,779,870 |

The notes on pages 39 to 106 are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

1. GENERAL INFORMATION

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

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

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

Changes in accounting policies and disclosures

(a) The adoption of all new and amended standards that are effective for the first time for the financial year beginning on 1st January 2017 by the Group did not have any material impact on results and financial position of the Group.

(b) *Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted by the Group*

Certain standards, amendments and interpretations to existing standards have been issued but are not effective for the financial year beginning 1st January 2017 and have not been early adopted by the Group. The Group's assessment of the impact of these standards, amendments and interpretations to existing standards is set out below.

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

2.1 Basis of preparation *(continued)*

Changes in accounting policies and disclosures (continued)

(b) *Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted by the Group (continued)*

HKFRS 9 Financial Instruments

Nature of change

HKFRS 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

Impact

The Group is reviewing its financial assets and liabilities and is expecting the following impact from the adoption of the new standard on 1st January 2018.

The financial assets held by the Group include:

- equity instruments currently classified as AFS for which a fair value through other comprehensive income ("FVOCI") election or reclassify to financial assets at fair value through profit or loss is available; and
- equity investments currently measured at fair value through profit or loss ("FVPL") which will continue to be measured on the same basis under HKFRS 9.

If AFS is reclassified to FVPL, related fair value gains will have to be transferred from investment revaluation reserve to retained earnings on 1st January 2018.

If AFS is classified as FVOCI, gains or losses realised on the sale of financial assets at FVOCI will no longer be transferred to profit or loss on sale, but instead reclassified below the line from the FVOCI reserve to retained earnings.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from HKAS 39 *Financial Instruments: Recognition and Measurement* and have not been changed.

The new impairment model requires the recognition of impairment provisions based on expected credit losses ("ECL") rather than only incurred credit losses as is the case under HKAS 39. It applies to financial assets classified at amortised cost and lease receivables.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

Date of adoption by the Group

Must be applied for financial years commencing on or after 1st January 2018. The Group will apply the new rules retrospectively from 1st January 2018, with the practical expedients permitted under the standard. Comparatives for 2017 will not be restated.

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

2.1 Basis of preparation *(continued)*

Changes in accounting policies and disclosures (continued)

- (b) *Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted by the Group (continued)*

HKFRS 15 Revenue from Contracts with Customers

Nature of change

The HKICPA has issued a new standard for the recognition of revenue. This will replace HKAS 18 which covers contracts for goods and services and HKAS 11 which covers construction contracts and the related literature.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

The standard permits either a full retrospective or a modified retrospective approach for the adoption.

Impact

Management has assessed the effects of applying the new standard on the Group's financial statements and no significant impact noted.

Date of adoption by the Group

Mandatory for financial years commencing on or after 1st January 2018. The Group intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1st January 2018 and that comparatives will not be restated.

HKFRS 16 Leases

Nature of change

HKFRS 16 was issued in January 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

Impact

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of approximately HK\$201 million. The Group has not yet assessed what other adjustments, if any, are necessary for example because of the change in the definition of the lease term and the different treatment of variable lease payments and of extension and termination options. It is therefore not possible to estimate the amount of right-of-use assets and lease liabilities that will have to be recognised on adoption of the new standard and how this may affect the Group's profit or loss and classification of cash flows going forward.

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

2.1 Basis of preparation *(continued)*

Changes in accounting policies and disclosures (continued)

- (b) *Standards, amendments and interpretations to existing standards that are not yet effective and have not been adopted by the Group (continued)*

HKFRS 16 Leases *(continued)*

Date of adoption by the Group

Mandatory for financial years commencing on or after 1st January 2019. At this stage, the Group does not intend to early adopt the standard before its effective date. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

There are no other standards that are not yet effective and that would be expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

2.2 Subsidiaries

2.2.1 Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

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

(a) *Business combinations*

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Acquisition related costs are expensed as incurred.

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by HKFRS.

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

2.2 Subsidiaries *(continued)*

2.2.1 Consolidation *(continued)*

(a) Business combinations *(continued)*

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

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the consolidated income statement (Note 2.6).

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

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

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

Transactions with non-controlling interests that do not result in a loss of control are accounted for as equity transactions – that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) Disposal of subsidiaries

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

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

2.3 Joint ventures

Under HKFRS 11, investments in joint ventures are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Investments in joint ventures are accounted for using the equity method of accounting and are initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition.

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

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

2.4 Segment reporting

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

2.5 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

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

2.5 Foreign currency translation *(continued)*

(c) Group companies

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

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

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

(d) Disposal of foreign operation and partial disposal

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

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

2.6 Intangible assets

(a) Goodwill

Goodwill represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired. Goodwill on acquisition of subsidiaries is included in "intangible assets". Goodwill on acquisitions of joint ventures is included in "investments in joint ventures". Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

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

2.6 Intangible assets *(continued)*

(a) Goodwill (continued)

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

(b) Trading rights

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

2.7 Property, plant and equipment

(a) Land and buildings in Hong Kong

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

(b) Construction-in-progress

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

(c) Other property, plant and equipment

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

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

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

2.7 Property, plant and equipment *(continued)*

(d) Depreciation and amortisation

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

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

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

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

(e) Gains and losses on disposals

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

2.8 Investment properties

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

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

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

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

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

2.8 Investment properties *(continued)*

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

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

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

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

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

2.9 Leasehold land and land use rights

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

2.10 Impairment of investments in subsidiaries, associated company, joint ventures and non-financial assets

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

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

2.10 Impairment of investments in subsidiaries, associated company, joint ventures and non-financial assets *(continued)*

The Group assesses at the end of each reporting period whether there is any objective evidence that its interests in the associated company and joint ventures are impaired. Such objective evidence includes whether there has been any significant adverse changes in the technological, market, economic or legal environment in which the associated company or joint ventures operate or whether there has been a significant or prolonged decline in value below their cost. If there is an indication that an interest in an associated company or joint venture is impaired, the Group assesses whether the entire carrying amount of the investment (including goodwill) is recoverable. An impairment loss is recognised in profit or loss for the amount by which the carrying amount exceeds the higher of the investment's fair value less costs to sell and value in use. Any reversal of such impairment loss (excluding goodwill) in subsequent periods is reversed through profit or loss.

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

2.11 Financial assets

2.11.1 Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

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

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within twelve months; otherwise, they are classified as non-current.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than twelve months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise "loans and advances", "client trust bank balances", "cash and cash equivalents", "deposits with banks", "trade receivables" and "other receivables, prepayments and deposits" in the consolidated balance sheet.

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

2.11 Financial assets *(continued)*

2.11.1 Classification *(continued)*

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of the investment within twelve months of the end of the reporting period.

2.11.2 Recognition and measurement

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

Gains and losses arising from changes in the fair value of the “financial assets at fair value through profit or loss” category, including net gains/(losses) on disposal and remeasurement at fair value, are recognised in the consolidated income statement within “revenue”. Dividend income from financial assets at fair value through profit or loss is recognised in the consolidated income statement as part of “revenue” when the Group’s right to receive payments is established.

Changes in the fair value of non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the consolidated income statement as “gains and losses from available-for-sale financial assets”. Interest on available-for-sale securities calculated using the effective interest method is recognised in the consolidated income statement. Dividends income on available-for-sale equity instruments are recognised in the consolidated income statement when the Group’s right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques. These include the use of recent arm’s length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models refined to reflect the issuers’ specific circumstances, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

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

2.11 Financial assets *(continued)*

2.11.2 Recognition and measurement *(continued)*

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. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the consolidated income statement – is removed from equity and recognised in the consolidated income statement. Impairment losses recognised in the consolidated income statement on available-for-sale financial assets are not reversed through the consolidated income statement. Impairment testing of trade and other receivables is described in Note 2.14.

2.12 Properties under development and held for sale

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

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

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

2.13 Inventories

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

2.14 Trade and other receivables

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

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

2.15 Client trust bank balances

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

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

2.16 Cash and cash equivalents

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

2.17 Share capital

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

2.18 Trade and other payables

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

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

2.19 Borrowings

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

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

2.20 Current and deferred taxation

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

(a) Current income tax

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

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

2.20 Current and deferred taxation *(continued)*

(b) Deferred income tax

Inside basis differences

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

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

Outside basis differences

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

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

(c) Offsetting

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

2.21 Employee benefits

(a) Pension obligations

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

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

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

2.21 Employee benefits *(continued)*

(b) Employee leave entitlements

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

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

(c) Discretionary bonus

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

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

(d) Employee share-based compensation

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

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

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

2.22 Provisions

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

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

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

2.23 Contingent liabilities

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

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

2.24 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown, net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group. The Group recognises revenue when the amount of revenue can be reliably measured, when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below.

- (a) Revenue on financial services business from brokerage and commission, management, consultancy, advisory and handling services rendered is recognised once the duties under the service contracts are performed and outcome of the transactions can be foreseen with reasonable certainty.
- (b) Revenue on financial services business from securities trading represents the net gains/(losses) on disposal and remeasurement of financial assets at fair value through profit or loss. All transactions related to securities trading are recorded in the consolidated financial statements based on trade dates. Accordingly, only those trade dates falling within the accounting year have been taken into account.

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

2.24 Revenue recognition *(continued)*

- (c) Revenue from the sale of goods is recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed.
- (d) Revenue from sales of properties is recognised upon completion of sales agreements, which refers to the time when the relevant properties have been completed and delivered to the purchasers pursuant to the sale agreements. Deposits and instalments received on properties sold prior to their completion are included in current liabilities.
- (e) Revenue from hotel accommodation, food and beverage sales, medical services and other ancillary services is recognised when the services are rendered.
- (f) Operating lease rental income is recognised on a straight-line basis over the lease periods.
- (g) Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.
- (h) Dividend income is recognised when the rights to receive payment is established.

2.25 Finance costs

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

2.26 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated income statement on a straight-line basis over the period of the lease.

Assets leased out under operating leases are included in investment properties in the consolidated balance sheet. Lease income is recognised over the term of the lease on straight-line basis.

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

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

2.27 Dividend distribution

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

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

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

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

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

(b) Allowance for doubtful debts

The Group makes allowance for doubtful debts based on an assessment of the recoverability of loans and advances, and trade and other receivables. Allowance is made when there are events or changes in circumstances which indicate that the balances may not be collectible. The identification of doubtful debts requires the use of judgements and estimates. Where the expectation on the recoverability of loans and advances, and trade and other receivables is different from the original estimate, such difference will impact the carrying value of loans and advances and trade and other receivables and doubtful debt expenses in the year in which such estimate has been changed.

(c) Useful lives of property, plant and equipment

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

(d) Impairment of property, plant and equipment

The Group reviews the recoverable amounts of the property, plant and equipment whenever there are events or changes in circumstances which indicate that the carrying amounts may not be recoverable. Impairment loss is recognised when the carrying amount exceeds its recoverable amount. The recoverable amounts have been determined based on value-in-use calculations. These calculations require the use of estimates.

(e) Impairment of available-for-sale financial assets

The Group follows the guidance of HKAS 39 to determine when an available-for-sale financial asset is impaired. This determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its costs, and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, change in technology and operational and financing cash flow.

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

(f) Impairment of non-financial assets

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

(g) Estimated fair value of investment properties

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

(h) Fair value of financial instruments

The fair value of financial instruments traded in active markets (such as trading and available-for-sale financial assets securities) is based on quoted market prices at the end of each reporting period.

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

(i) Income taxes

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

4. SEGMENT INFORMATION

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

4. SEGMENT INFORMATION *(continued)*

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

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

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

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

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

(a) Operating segments

| | Financial services 2017 HK\$'000 | Property development 2017 HK\$'000 | Property investment and hotel 2017 HK\$'000 | Medical and healthcare 2017 HK\$'000 | Direct investment 2017 HK\$'000 | 2017 HK\$'000 |
|------------------------------------|---|---|---|--|--|------------------|
| Income statement | | | | | | |
| Revenue | 310,094 | 7,210 | 121,891 | 1,238 | 6,012 | 446,445 |
| Segment results | 146,534 | (13,999) | 43,478 | (69,702) | (7,457) | 98,854 |
| Unallocated net operating expenses | | | | | | (37,523) |
| Operating profit | | | | | | 61,331 |
| Finance income – net | | | | | | 2,689 |
| Share of results of joint ventures | - | - | 13,844 | - | (225) | 13,619 |
| Profit before taxation | | | | | | 77,639 |
| Balance sheet | | | | | | |
| Segment assets | 4,691,949 | 748,305 | 1,215,122 | 123,947 | 202,994 | 6,982,317 |
| Investment in a joint venture | - | - | 224,037 | - | - | 224,037 |
| Tax recoverable | | | | | | 11,351 |
| Deferred tax assets | | | | | | 17,405 |
| Corporate assets | | | | | | 18,741 |
| Total assets | | | | | | 7,253,851 |
| Other information | | | | | | |
| Depreciation and amortisation | 979 | 339 | 12,760 | 2,055 | 458 | 16,591 |

Note: There were no sales among the operating segments.

4. SEGMENT INFORMATION *(continued)*

(a) Operating segments *(continued)*

| | Financial services 2016 HK\$'000 | Property development 2016 HK\$'000 | Property investment and hotel 2016 HK\$'000 | Direct investment 2016 HK\$'000 | 2016 HK\$'000 |
|------------------------------------|---|---|---|--|------------------|
| Income statement | | | | | |
| Revenue | 260,466 | 12,161 | 113,220 | 4,945 | 390,792 |
| Segment results | 124,275 | (31,564) | 17,345 | (125,644) | (15,588) |
| Unallocated net operating expenses | | | | | (40,509) |
| Operating loss | | | | | (56,097) |
| Finance income – net | | | | | 4,922 |
| Share of results of | | | | | |
| – An associated company | – | – | – | (1,523) | (1,523) |
| – Joint ventures | – | – | 16,732 | 122 | 16,854 |
| Loss before taxation | | | | | (35,844) |
| Balance sheet | | | | | |
| Segment assets | 4,723,238 | 647,715 | 964,733 | 278,234 | 6,613,920 |
| Investments in joint ventures | – | – | 201,215 | 38,108 | 239,323 |
| Tax recoverable | | | | | 12,039 |
| Deferred tax assets | | | | | 6,843 |
| Corporate assets | | | | | 88,513 |
| Total assets | | | | | 6,960,638 |
| Other information | | | | | |
| Depreciation and amortisation | 1,045 | 266 | 14,475 | 675 | 16,461 |

Note: There were no sales among the operating segments.

4. SEGMENT INFORMATION *(continued)*

(b) Geographical segments

| | Hong Kong 2017 HK\$'000 | PRC and others 2017 HK\$'000 | 2017 HK\$'000 |
|---------------------|-------------------------------|------------------------------------|------------------|
| Revenue | 312,141 | 134,304 | 446,445 |
| Non-current assets* | 201,106 | 1,299,253 | 1,500,359 |
| | Hong Kong 2016 HK\$'000 | PRC and others 2016 HK\$'000 | 2016 HK\$'000 |
| Revenue | 261,283 | 129,509 | 390,792 |
| Non-current assets* | 78,115 | 1,078,602 | 1,156,717 |

* Non-current assets exclude available-for-sale financial assets and deferred tax assets.

5. OTHER GAINS/(LOSSES) – NET

| | 2017 HK\$'000 | 2016 HK\$'000 |
|---|------------------|------------------|
| Gain on disposal of a joint venture | 354 | – |
| Gain on disposal of investment properties | 1,121 | 742 |
| Fair value gains on investment properties | 31,096 | 15,689 |
| Net foreign exchange gain/(loss) | 18,595 | (964) |
| Loss on disposal of an associated company | – | (117,900) |
| | 51,166 | (102,433) |

6. OPERATING PROFIT/(LOSS)

Operating profit/(loss) is stated after crediting and charging the following:

| | 2017 HK\$'000 | 2016 HK\$'000 |
|--|------------------|------------------|
| Crediting | | |
| Write back of provision for doubtful debts | – | 18 |
| Net gain on disposal of property, plant and equipment | 5 | 7 |
| Charging | | |
| Depreciation | 15,427 | 15,271 |
| Amortisation of leasehold land and land use rights (Note 17) | 1,590 | 1,607 |
| Cost of properties sold | 5,749 | 10,402 |
| Stockbroking commission and related expenses | 38,889 | 22,599 |
| Staff costs (Note 11) | 200,128 | 175,102 |
| Operating lease rental in respect of land and buildings | 53,574 | 9,322 |
| Auditors' remuneration | | |
| Audit and audit related work | | |
| – the Company's auditor | 2,813 | 2,660 |
| – other auditors | 775 | 795 |
| Non-audit services – the Company's auditor | 166 | 419 |
| Provision for impairment of properties held for sale | – | 18,161 |

7. FINANCE INCOME – NET

| | 2017 HK\$'000 | 2016 HK\$'000 |
|--|------------------|------------------|
| Finance income – interest income | 25,090 | 22,144 |
| Finance costs | | |
| – Interest on loans and overdrafts | (23,950) | (18,615) |
| – Less: amounts capitalised as qualifying assets | 1,549 | 1,393 |
| Total finance costs | (22,401) | (17,222) |
| Finance income – net | 2,689 | 4,922 |

Finance costs were capitalised at the weighted average rate of 15% (2016: 4.90%) per annum for the year.

8. TAXATION

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

| | 2017 HK\$'000 | 2016 HK\$'000 |
|--|------------------|------------------|
| Hong Kong profits tax | | |
| Current | 15,889 | 16,343 |
| Over-provision in previous years | (961) | (3,474) |
| Overseas taxation | | |
| Current | 1,853 | 1,702 |
| (Over)/under-provision in previous years | (102) | 34 |
| Land appreciation tax | 528 | 750 |
| Deferred taxation (<i>Note 34</i>) | (3,874) | 4,761 |
| Taxation charge | 13,333 | 20,116 |

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

| | 2017 HK\$'000 | 2016 HK\$'000 |
|--|------------------|------------------|
| Profit/(loss) before taxation (net of share of profits less losses of associated company and joint ventures) | 64,020 | (51,175) |
| Tax calculated at a taxation rate of 16.5% (2016: 16.5%) | 10,563 | (8,444) |
| Effect of different taxation rates in other countries | (6,874) | (5,307) |
| Income not subject to taxation | (4,215) | (3,338) |
| Expenses not deductible for taxation purposes | 2,370 | 26,438 |
| Over-provision in previous years, net | (1,063) | (3,440) |
| Unrecognised deferred tax assets | 11,315 | 12,673 |
| Corporate withholding tax | 674 | 771 |
| Others | 35 | 13 |
| Land appreciation tax | 528 | 750 |
| Taxation charge | 13,333 | 20,116 |

8. TAXATION *(continued)*

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

| | 2017 HK\$'000 | 2016 HK\$'000 |
|--------------------|------------------|------------------|
| Recoverable | | |
| Hong Kong | – | 1,607 |
| Overseas | 11,351 | 10,432 |
| | 11,351 | 12,039 |
| Payable | | |
| Hong Kong | 492 | 7 |
| Overseas | 29,266 | 27,599 |
| | 29,758 | 27,606 |

9. EARNINGS/(LOSSES) PER SHARE

The calculation of basic and diluted earnings/(losses) per share is based on the Group's profit attributable to shareholders of HK\$61,944,000 (2016: Group's loss attributable to shareholders of HK\$49,909,000). The basic earnings/(losses) per share is based on the weighted average number of 1,418,973,012 (2016: 1,417,250,484) shares in issue during the year.

Diluted earnings per share is the same as the basic earnings per share as the potential additional ordinary shares are anti-dilutive during the year. The potential additional ordinary shares under the Group's share option were lapsed as at 31st December 2017.

For the year ended 31st December 2016, diluted losses per share is the same as the basic losses per share as the potential additional ordinary shares are anti-dilutive.

10. DIVIDENDS

The Board does not recommend the payment of a final dividend (2016: HK\$Nil) for the year ended 31st December 2017.

11. STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

| | 2017 HK\$'000 | 2016 HK\$'000 |
|---|------------------|------------------|
| Wages, salaries and allowance | 179,460 | 155,031 |
| Retirement benefit costs (<i>Note 13</i>) | 11,008 | 10,996 |
| Other employee benefits | 9,660 | 9,075 |
| | 200,128 | 175,102 |

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

(a) Directors' emoluments

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

(i) For the year ended 31st December 2017

| Name of director | Fees HK\$'000 | Salary HK\$'000 | Discretionary bonuses HK\$'000 | Retirement benefit costs HK\$'000 | Total HK\$'000 |
|---|------------------|--------------------|--------------------------------------|---|-------------------|
| Executive directors: | | | | | |
| Mr. LO Yuen Yat | - | 3,517 | 1,200 | 300 | 5,017 |
| Mr. XIN Shulin | - | 2,383 | - | 202 | 2,585 |
| Mr. YEUNG Wai Kin | - | 3,087 | 2,000 | 262 | 5,349 |
| Non-executive director: | | | | | |
| Mr. KWOK Lam Kwong, Larry, <i>S.B.S., J.P.</i> | 294 | - | - | - | 294 |
| Independent non-executive directors: | | | | | |
| Prof. WOO Chia-Wei | 294 | - | - | - | 294 |
| Mr. LIU Ji | 294 | - | - | - | 294 |
| Mr. YU Qihao | 294 | - | - | - | 294 |
| Mr. ZHOU Xiaohe | 294 | - | - | - | 294 |

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

(a) Directors' emoluments *(continued)*

(ii) For the year ended 31st December 2016

| Name of director | Fees | Salary | Discretionary bonuses | Retirement benefit costs | Total |
|---|----------|----------|--------------------------|-----------------------------|----------|
| | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 | HK\$'000 |
| Executive directors: | | | | | |
| Mr. LO Yuen Yat | - | 3,400 | 800 | 290 | 4,490 |
| Mr. XIN Shulin | - | 2,389 | - | 202 | 2,591 |
| Mr. YEUNG Wai Kin | - | 2,988 | 1,480 | 252 | 4,720 |
| Non-executive director: | | | | | |
| Mr. KWOK Lam Kwong, Larry, <i>S.B.S., J.P.</i> | 294 | - | - | - | 294 |
| Independent non-executive directors: | | | | | |
| Prof. WOO Chia-Wei | 294 | - | - | - | 294 |
| Mr. LIU Ji | 294 | - | - | - | 294 |
| Mr. YU Qihao | 294 | - | - | - | 294 |
| Mr. ZHOU Xiaohe | 294 | - | - | - | 294 |

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

No directors have waived emoluments in respect of the years ended 31st December 2017 and 2016.

(b) Other directors' benefits and interests

During the years ended 31st December 2017 and 2016, there were:

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

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

(c) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2016: two) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2016: three) individuals during the year are as follows:

| | 2017 HK\$'000 | 2016 HK\$'000 |
|---|------------------|------------------|
| Basic salaries, allowances and benefits-in-kind | 7,043 | 6,771 |
| Discretionary bonuses | 20,672 | 16,796 |
| Retirement benefit costs | 290 | 281 |
| | 28,005 | 23,848 |

The emoluments fell within the following bands:

| Emolument bands HK\$ | Number of individuals | |
|-------------------------|-----------------------|----------|
| | 2017 | 2016 |
| 3,000,001 – 3,500,000 | – | 1 |
| 4,000,001 – 4,500,000 | 1 | – |
| 4,500,001 – 5,000,000 | – | 1 |
| 5,500,001 – 6,000,000 | 1 | – |
| 15,000,001 – 15,500,000 | – | 1 |
| 18,000,001 – 18,500,000 | 1 | – |
| | 3 | 3 |

13. RETIREMENT BENEFIT COSTS – DEFINED CONTRIBUTION PLANS

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

No contribution (2016: HK\$Nil) of defined contribution retirement schemes in Hong Kong was forfeited during the year. There were no outstanding balance as at the balance sheet dates of 2017 and 2016 available to reduce the contributions payable in the future years.

Contributions totaling HK\$354,000 (2016: HK\$280,000) were payable to the retirement schemes at the year end and are included in trade and other payables.

13. RETIREMENT BENEFIT COSTS – DEFINED CONTRIBUTION PLANS *(continued)*

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

14. INTANGIBLE ASSETS

| | Goodwill HK\$'000 | Trading rights HK\$'000 | Total HK\$'000 |
|------------------------------------|----------------------|----------------------------|-------------------|
| Cost | | | |
| At 1st January 2017 | 11,002 | 400 | 11,402 |
| Exchange difference | 1,242 | – | 1,242 |
| At 31st December 2017 | 12,244 | 400 | 12,644 |
| Accumulated impairment loss | | | |
| At 1st January 2017 | 9,276 | – | 9,276 |
| Exchange difference | 1,242 | – | 1,242 |
| At 31st December 2017 | 10,518 | – | 10,518 |
| Net book value | | | |
| At 31st December 2017 | 1,726 | 400 | 2,126 |
| | Goodwill HK\$'000 | Trading rights HK\$'000 | Total HK\$'000 |
| Cost | | | |
| At 1st January 2016 | 11,312 | 400 | 11,712 |
| Exchange difference | (310) | – | (310) |
| At 31st December 2016 | 11,002 | 400 | 11,402 |
| Accumulated impairment loss | | | |
| At 1st January 2016 | 9,586 | – | 9,586 |
| Exchange difference | (310) | – | (310) |
| At 31st December 2016 | 9,276 | – | 9,276 |
| Net book value | | | |
| At 31st December 2016 | 1,726 | 400 | 2,126 |

14. INTANGIBLE ASSETS (continued)**Impairment test for goodwill**

Goodwill acquired through business combination has been allocated to the property development, and property investment and hotel segments for impairment testing.

The recoverable amount of the lowest level of CGU has been determined based on value-in-use calculation using cash flow projections based on financial budgets approved by management covering a period of five years. There are a number of assumptions and estimates involved in the preparation of cash flow projections for the period covered by the approved budget. Key assumptions include the expected growth in revenues and gross margin, timing of future capital expenditures and selection of discount rates. Management determines budgeted gross margin based on past performance and its expectations for the market development. The discount rates used are pre-tax and reflect specific risks relating to the relevant segments. The discount rate applied to cash flow projection is 11%.

15. PROPERTY, PLANT AND EQUIPMENT

| | Land and buildings HK\$'000 | Furniture, fixtures and equipment HK\$'000 | Vehicles, trucks and machinery HK\$'000 | Construction- in-progress HK\$'000 | Total HK\$'000 |
|---|-----------------------------------|---|--|--|-------------------|
| Cost or valuation | | | | | |
| At 1st January 2017 | 379,747 | 150,324 | 29,136 | 52,905 | 612,112 |
| Additions | – | 111,579 | 710 | 93,438 | 205,727 |
| Disposals | – | (784) | (730) | – | (1,514) |
| Exchange differences | 31,366 | 8,920 | 1,805 | 7,366 | 49,457 |
| At 31st December 2017 | 411,113 | 270,039 | 30,921 | 153,709 | 865,782 |
| Accumulated depreciation and impairment loss | | | | | |
| At 1st January 2017 | 71,977 | 137,999 | 18,279 | 338 | 228,593 |
| Depreciation for the year | 8,750 | 4,899 | 1,778 | – | 15,427 |
| Disposals | – | (580) | (661) | – | (1,241) |
| Exchange differences | 4,902 | 8,361 | 1,299 | 24 | 14,586 |
| At 31st December 2017 | 85,629 | 150,679 | 20,695 | 362 | 257,365 |
| Net book value | | | | | |
| At 31st December 2017 | 325,484 | 119,360 | 10,226 | 153,347 | 608,417 |

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

| | Land and buildings HK\$'000 | Furniture, fixtures and equipment HK\$'000 | Vehicles, trucks and machinery HK\$'000 | Construction- in-progress HK\$'000 | Total HK\$'000 |
|---|-----------------------------------|---|--|--|-------------------|
| Cost or valuation | | | | | |
| At 1st January 2016 | 397,540 | 155,770 | 35,124 | 19,593 | 608,027 |
| Additions | 94 | 3,460 | 645 | 33,985 | 38,184 |
| Disposals | – | (448) | (4,882) | – | (5,330) |
| Exchange differences | (17,887) | (8,458) | (1,751) | (673) | (28,769) |
| At 31st December 2016 | 379,747 | 150,324 | 29,136 | 52,905 | 612,112 |
| Accumulated depreciation and impairment loss | | | | | |
| At 1st January 2016 | 66,452 | 141,847 | 22,555 | 362 | 231,216 |
| Depreciation for the year | 8,942 | 4,493 | 1,836 | – | 15,271 |
| Disposals | – | (424) | (4,839) | – | (5,263) |
| Exchange differences | (3,417) | (7,917) | (1,273) | (24) | (12,631) |
| At 31st December 2016 | 71,977 | 137,999 | 18,279 | 338 | 228,593 |
| Net book value | | | | | |
| At 31st December 2016 | 307,770 | 12,325 | 10,857 | 52,567 | 383,519 |

A freehold land with carrying amount of HK\$114,143,000 (2016: HK\$100,157,000) was included under "Land and buildings" category.

A land and building with carrying amount of HK\$45,904,000 (2016: HK\$46,511,000) is stated at professional valuation in 1994 less accumulated depreciation. If this land and building has been stated on the historical cost basis, its net book amount would be HK\$22,613,000 (2016: HK\$23,880,000).

As at 31st December 2017, certain freehold land and construction-in-progress with net book value of HK\$267,490,000 (2016: HK\$152,724,000) were pledged to a bank in order to obtain a bank guarantee.

16. INVESTMENT PROPERTIES

| | 2017 HK\$'000 | 2016 HK\$'000 |
|---|------------------|------------------|
| Valuation at 1st January | 481,441 | 470,459 |
| Transfer from properties held for sale | 39,418 | 28,775 |
| Disposals | (12,864) | (7,507) |
| Fair value gains | 31,096 | 15,689 |
| Exchange differences | 26,938 | (25,975) |
| Valuation at 31st December | 566,029 | 481,441 |
| | 2017 HK\$'000 | 2016 HK\$'000 |
| Rental income recognised in consolidated income statement for investment properties | 17,949 | 15,652 |
| Operating expenses recognised in consolidated income statement for rental income | 1,827 | 1,612 |

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

Fair value measurements using significant unobservable inputs (Level 3)

| | 2017 HK\$'000 | 2016 HK\$'000 |
|---|------------------|------------------|
| Total gains or losses for the year included in the consolidated income statement for assets held at the end of the year, under "Other gains/(losses) – net" | 31,096 | 15,689 |
| Change in unrealised gains for the year included in the consolidated income statement for assets held at the end of the year | 31,096 | 15,689 |

16. INVESTMENT PROPERTIES *(continued)*

Valuation processes

The Group's investment properties were revalued at 31st December 2017 and 2016 by independent, professionally qualified valuers who have appropriate qualifications and recent experiences in the valuation of similar properties in the relevant locations.

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

At each financial year end, the finance department:

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

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

Valuation techniques

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

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

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

16. INVESTMENT PROPERTIES (continued)

Information about fair value measurements using significant unobservable inputs (Level 3) as at 31st December 2017 and 2016

| Valuation technique(s) | Unobservable inputs | Relationship | Range |
|--|---------------------|---|--|
| (a) PRC properties in the first-tier cities | | | |
| Direct comparison approach | Sales price | Higher fair value with higher sales price | HK\$22,000 – HK\$84,000 (2016: HK\$20,000 – HK\$70,000) per square meter |
| (b) PRC properties in other cities | | | |
| Direct comparison approach | Sales price | Higher fair value with higher sales price | HK\$9,000 – HK\$12,000 (2016: HK\$8,000 – HK\$14,000) per square meter |
| Income capitalisation approach | Monthly market rent | Higher fair value with higher monthly market rent | HK\$39 – HK\$109 (2016: HK\$34 – HK\$84) per square meter |
| | Capitalisation rate | Lower fair value with higher capitalisation rate | 3% – 9% (2016: 3% – 9%) |
| (c) HK properties | | | |
| Direct comparison approach | Sales price | Higher fair value with higher sales price | HK\$249,000 – HK\$305,000 (2016: HK\$229,000 – HK\$284,000) per square meter |

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

17. LEASEHOLD LAND AND LAND USE RIGHTS

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

| | 2017 HK\$'000 | 2016 HK\$'000 |
|------------------------------------|------------------|------------------|
| Net book value at 1st January | 45,733 | 48,922 |
| Amortisation for the year (Note 6) | (1,590) | (1,607) |
| Exchange differences | 1,493 | (1,582) |
| Net book value at 31st December | 45,636 | 45,733 |

18. SUBSIDIARIES

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

| Name | Place of incorporation/ operation | Particulars of issued share capital/ registered capital | Effective interest held | | Principal activities |
|--|--------------------------------------|---|-------------------------|------|--|
| | | | 2017 | 2016 | |
| Shares held directly: | | | | | |
| Advance Sight International Limited | British Virgin Islands | 10 ordinary shares of US\$1 each | 100% | 100% | Investment holding |
| Ever Achieve Investments Limited | British Virgin Islands | 10 ordinary shares of US\$1 each | 100% | 100% | Securities investment |
| First Shanghai Direct Investments Limited | Hong Kong | 2 ordinary shares | 100% | 100% | Investment holding |
| First Shanghai Finance Limited | Hong Kong | 2 ordinary shares | 100% | 100% | Money lending |
| First Shanghai Holdings Limited | Hong Kong | 2 ordinary shares | 100% | 100% | Investment holding |
| First Shanghai Management Services Limited | Hong Kong | 1,200,000 ordinary shares | 100% | 100% | Agency, management and secretarial services |
| First Shanghai Nominees Limited | Hong Kong | 2 ordinary shares | 100% | 100% | Nominee services |
| First Shanghai Properties Limited | Hong Kong | 16,500,002 ordinary shares | 100% | 100% | Property investment |
| Firstech Financial Holdings Limited | Cayman Islands | 1 ordinary share of US\$1 each | 100% | 100% | Investment holding |
| Fu Hai Yun Tong Finance Leasing (Shanghai) Company Limited | PRC (a) | US\$10,000,000 | 100% | 100% | Leasing |
| Headmost Technology Limited | British Virgin Islands | 10 ordinary shares of US\$1 each | 100% | 100% | Investment holding |
| IVF Centre (Hong Kong) Limited | Hong Kong | 10 ordinary shares | 100% | – | Provision of medical and healthcare services |
| Leung Investments Limited | British Virgin Islands | 10 ordinary shares of US\$1 each | 100% | 100% | Property investment |
| UAT Holdings Limited | British Virgin Islands | 100 ordinary shares of US\$1 each | 100% | 100% | Investment holding |
| Well Far Limited | British Virgin Islands | 10 ordinary shares of US\$1 each | 100% | 100% | Securities investment |

18. SUBSIDIARIES (continued)

| Name | Place of incorporation/ operation | Particulars of issued share capital/ registered capital | Effective interest held | | Principal activities |
|---|--------------------------------------|---|-------------------------|------|-------------------------|
| | | | 2017 | 2016 | |
| Shares held directly: (continued) | | | | | |
| Wise International Trading Limited | Hong Kong | 10 ordinary shares | 100% | 100% | Investment holding |
| Yearson Properties Limited | British Virgin Islands | 10 ordinary shares of US\$1 each | 100% | 100% | Property investment |
| Shares held indirectly: | | | | | |
| Best Glory Holdings Limited | Hong Kong | 1 ordinary share | 100% | – | Property investment |
| Billion Bright Investments Limited | British Virgin Islands | 10 ordinary shares of US\$1 each | 100% | 100% | Securities investment |
| Bonvision Consultancy (Beijing) Company Limited | PRC (a) | HK\$500,000 | 100% | 100% | Financial consultancy |
| Bonvision Consulting (Shanghai) Limited | PRC (a) | US\$200,000 | 100% | 100% | Financial consultancy |
| Bright Shining Limited | British Virgin Islands | 10 ordinary shares of US\$1 each | 100% | 100% | Property investment |
| China Betung Automobile (H.K.) Company Limited | Hong Kong | 2 ordinary shares | 100% | 100% | Investment holding |
| Clear Profit Investments Limited | British Virgin Islands | 10 ordinary shares of US\$1 each | 100% | 100% | Property investment |
| Crimson Pharmaceutical (Hong Kong) Limited | Hong Kong | 1,000 ordinary shares | 100% | 100% | Pharmaceutical services |
| Crimson Pharmaceutical (Shanghai) Company Limited | PRC (a) | US\$1,400,000 | 100% | 100% | Pharmaceutical services |
| CVIC International Container Transportation Company Limited | Hong Kong | 10,000 ordinary shares | 100% | 100% | Investment holding |
| E-Logistics Limited | British Virgin Islands | 10 ordinary shares of US\$1 each | 100% | 100% | Investment holding |

18. SUBSIDIARIES (continued)

| Name | Place of incorporation/ operation | Particulars of issued share capital/ registered capital | Effective interest held | | Principal activities |
|---|--------------------------------------|---|-------------------------|-------|--|
| | | | 2017 | 2016 | |
| Shares held indirectly: (continued) | | | | | |
| First eFinance Limited | Hong Kong | 2 ordinary shares | 100% | 100% | Internet financial service system services |
| First Shanghai Capital Limited | Hong Kong | 22,000,000 ordinary shares | 100% | 100% | Corporate finance |
| First Shanghai Financial Investments Limited | Hong Kong | 100 ordinary shares | 100% | – | Investment holding |
| First Shanghai Financial Holding Limited | British Virgin Islands | 10 ordinary shares of US\$1 each | 100% | 100% | Investment holding |
| First Shanghai Futures Limited | Hong Kong | 34,000,000 ordinary shares | 100% | 100% | Futures broking |
| First Shanghai Hotel Limited | France | 100 ordinary shares of EUR100 each | 100% | 100% | Hotel operation |
| First Shanghai Hygienic Products Limited | British Virgin Islands | 10 ordinary shares of US\$1 each | – | 100% | Investment holding |
| First Shanghai Investment Holding Group Limited | British Virgin Islands | 100,000 ordinary shares of US\$1 each | 99.9% | 99.9% | Investment holding |
| First Shanghai Investment Management (HK) Limited | Hong Kong | 7,000,000 ordinary shares | 100% | 100% | Asset management |
| First Shanghai Properties (Kunshan) Company Limited | PRC (b) | US\$5,000,000 | 70% | 70% | Property development |
| First Shanghai Real Estate (Holdings) Limited | Hong Kong | 10 ordinary shares | 100% | 100% | Investment holding |
| First Shanghai Resort S.a.r.l. | Luxembourg | 12,500 ordinary shares of EUR1 each | 100% | 100% | Investment holding |
| First Shanghai Securities Limited | Hong Kong | 85,000,000 ordinary shares | 100% | 100% | Stockbroking |

18. SUBSIDIARIES (continued)

| Name | Place of incorporation/ operation | Particulars of issued share capital/ registered capital | Effective interest held | | Principal activities |
|--|--------------------------------------|---|-------------------------|------|--|
| | | | 2017 | 2016 | |
| Shares held indirectly: (continued) | | | | | |
| Fu Hai Digital Science & Technology (Shanghai) Company Limited | PRC (a) | US\$5,000,000 | 100% | 100% | Investment holding |
| Golad Resources Limited | British Virgin Islands | 100 ordinary shares of US\$1 each | – | 100% | Investment holding |
| Gold S.A.S. | France | 2,000,000 ordinary shares of EUR7.01 each | 100% | 100% | Hotel and golf course operation |
| HK Landshine Real Estate Limited | Hong Kong | 1 ordinary share | 100% | 100% | Investment holding |
| Huangshan Hui Zhong Property Development Company Limited | PRC (a) | US\$5,000,000 | 100% | 100% | Property development |
| IMC (Hong Kong) Management Services Limited | Hong Kong | 10 ordinary shares | 100% | – | Management services |
| International Medical Centre (Hong Kong) Limited | Hong Kong | 10 ordinary shares | 100% | – | Provision of medical and healthcare services |
| Jonan Industries Limited | British Virgin Islands | 100 ordinary shares of US\$1 each | 100% | 100% | Investment holding |
| Kunshan Shi Jingying Hotel Management Company Limited | PRC (c) | RMB1,000,000 | 70% | 70% | Hotel operation |
| Leader Capital Investments Limited | British Virgin Islands | 10 ordinary shares of US\$1 each | 100% | 100% | Investment holding |
| Leading Business Limited | British Virgin Islands | 1,450,000 ordinary shares of US\$1 each | 100% | 100% | Property investment |
| Peak Achieve Investments Limited | British Virgin Islands | 1 ordinary share of US\$1 each | 100% | 100% | Investment holding |

18. SUBSIDIARIES (continued)

| Name | Place of incorporation/ operation | Particulars of issued share capital/ registered capital | Effective interest held | | Principal activities |
|--|--------------------------------------|---|-------------------------|-------|---|
| | | | 2017 | 2016 | |
| Shares held indirectly: (continued) | | | | | |
| Shanghai Fu Heng Properties Management Limited | PRC (c) | RMB500,000 | 55% | 55% | Property management |
| Shanghai Transvision Network Application Service Company Limited | PRC (a) | US\$1,800,000 | 100% | 100% | Investment holding |
| Shanghai Zhong Chuang International Container Storage & Transportation Company Limited | PRC (b) | US\$11,025,000 | 62% | 62% | Container transportation and freight forwarding |
| United Asia Transport Limited | Hong Kong | 2 ordinary shares | 100% | 100% | Investment holding |
| Union Light International Limited | Hong Kong | 1 ordinary share | 100% | 100% | Investment holding |
| World Venture Holdings Limited | British Virgin Islands | 10 ordinary shares of US\$1 each | 100% | 100% | Investment holding |
| Wuxi HK Landshine Real Estate Company Limited ("Wuxi Landshine") | PRC (b) | US\$20,000,000 | 70% | 70% | Property development |
| Wuxi Sunshine Real Estate Limited | PRC (a) | US\$30,000,000 | 100% | 100% | Hotel operation |
| Zhongshan Sunshine Resort Limited | PRC (a) | RMB80,000,000 | 99.9% | 99.9% | Property development |

Notes:

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

18. SUBSIDIARIES *(continued)***Material non-controlling interests**

The total non-controlling interest for the year is HK\$74,590,000 (2016: HK\$68,426,000), of which HK\$54,270,000 (2016: HK\$48,414,000) is attributed to Wuxi Landshine. The non-controlling interests in respect of the other companies are not material.

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

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

| | 2017 HK\$'000 | 2016 HK\$'000 |
|--|------------------|------------------|
| Summarised income statement | | |
| Revenue | 9,498 | 13,865 |
| Profit/(loss) after taxation | 7,932 | (18,282) |
| Total comprehensive income/(loss) | 7,932 | (18,282) |
| Summarised balance sheet | | |
| Assets | | |
| Non-current assets | 213,617 | 153,506 |
| Current assets | 265,717 | 282,828 |
| | 479,334 | 436,334 |
| Liabilities | | |
| Non-current liabilities | 89,199 | 81,882 |
| Current liabilities | 209,236 | 193,072 |
| | 298,435 | 274,954 |
| Net assets | 180,899 | 161,380 |
| Summarised cash flows | | |
| Cash flows generated from operating activities | 10,126 | 7,284 |
| Net cash from investing activities | 5 | 6 |
| Net cash used in financing activities | (8,173) | (6,840) |
| Net increase in cash and cash equivalents | 1,958 | 450 |
| Cash and cash equivalents at 1st January | 1,275 | 880 |
| Exchange difference | (81) | (55) |
| Cash and cash equivalents at 31st December | 3,152 | 1,275 |

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

19. INVESTMENT IN AN ASSOCIATED COMPANY

| | 2017 HK\$'000 | 2016 HK\$'000 |
|---|------------------|------------------|
| At 1st January | – | 434,822 |
| Share of an associated company's result | | |
| – Loss before taxation | – | (1,522) |
| – Taxation | – | (1) |
| Share of an associated company's reserves | – | (53,463) |
| Disposal | – | (380,030) |
| Exchange differences | – | 194 |
| At 31st December | – | – |

20. INVESTMENTS IN JOINT VENTURES

| | 2017 HK\$'000 | 2016 HK\$'000 |
|----------------------------------|------------------|------------------|
| At 1st January | 239,323 | 247,562 |
| Share of joint ventures' results | | |
| – Profit before taxation | 17,388 | 21,979 |
| – Taxation | (3,769) | (5,125) |
| Dividend income | (5,632) | (8,642) |
| Disposal | (38,170) | – |
| Exchange differences | 14,897 | (16,451) |
| At 31st December | 224,037 | 239,323 |

The following is a list of the joint ventures at 31st December:

| Name | Place of incorporation/ establishment and operation | Effective interest in ownership/ voting power/ profit sharing | | Measurement method |
|---|---|--|------|-----------------------|
| | | 2017 | 2016 | |
| Goodbaby Bairuikang Hygienic Products Company Limited ("Goodbaby Bairuikang") (see note (a) below) | PRC | – | 50% | Equity |
| Shanghai Zhangjiang Property Development Company Limited ("Zhangjiang") (see note (b) below) | PRC | 50% | 50% | Equity |

20. INVESTMENTS IN JOINT VENTURES *(continued)*

Notes:

- (a) Goodbaby Bairuikang was established as an equity joint venture in the PRC in December 1997 for a term of 50 years. It is principally engaged in the manufacturing of child hygienic products.
- (b) Zhangjiang was established as an equity joint venture in the PRC in October 2002 for a term of 50 years. It is principally engaged in property development.

Goodbaby Bairuikang and Zhangjiang are private companies and there are no quoted market price available for their shares.

There are no contingent liabilities relating to the Group's interests in the joint ventures.

Summarised financial information and reconciliation for a material joint venture

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

| | 2017 HK\$'000 | 2016 HK\$'000 |
|---|------------------|------------------|
| Summarised income statement | | |
| Revenue | 26,587 | 25,451 |
| Depreciation and amortisation | 106 | 4 |
| Interest income | 123 | 156 |
| Income tax charge | 7,538 | 10,163 |
| Profit after taxation | 27,688 | 33,464 |
| Total comprehensive income | 27,688 | 33,464 |
| Dividends received from a joint venture | 5,632 | 8,642 |

20. INVESTMENTS IN JOINT VENTURES *(continued)***Summarised financial information and reconciliation for a material joint venture** *(continued)*

| | 2017 HK\$'000 | 2016 HK\$'000 |
|------------------------------------|------------------|------------------|
| Summarised balance sheet | | |
| Assets | | |
| Non-current assets | 510,924 | 464,926 |
| Cash and cash equivalents | 32,086 | 18,320 |
| Other current assets | 45,375 | 43,987 |
| Total current assets | 77,461 | 62,307 |
| | 588,385 | 527,233 |
| Liabilities | | |
| Non-current liabilities | 90,659 | 81,897 |
| Current liabilities | 49,652 | 42,906 |
| | 140,311 | 124,803 |
| Net assets | | |
| Interest attributable to the Group | 224,037 | 201,215 |

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

Financial information for immaterial joint venture

The carrying amount of the Group's interests in the immaterial joint venture is HK\$Nil (2016: HK\$38,108,000). Set out below are the financial information for the Group's share of this joint venture.

| | 2017 HK\$'000 | 2016 HK\$'000 |
|-----------------------------------|------------------|------------------|
| (Loss)/profit after tax | (225) | 122 |
| Total comprehensive (loss)/income | (225) | 122 |

21. AVAILABLE-FOR-SALE FINANCIAL ASSETS

| | 2017 HK\$'000 | 2016 HK\$'000 |
|--|------------------|------------------|
| At 1st January | 255,256 | 291,761 |
| Fair value change transfer to other comprehensive income | (70,626) | (36,505) |
| At 31st December | 184,630 | 255,256 |

The available-for-sale financial assets represents the unlisted equity securities, which fair value is determined with reference to the published price quotations in an active market of the underlying investments held by the investee.

22. LOANS AND ADVANCES

| | 2017 HK\$'000 | 2016 HK\$'000 |
|-------------------------------|------------------|------------------|
| Loans and advances (note (a)) | 60,109 | 60,686 |
| Provision for impairment | (56,359) | (56,111) |
| Less: non-current portion | 3,750 (3,750) | 4,575 (4,575) |
| Current portion | – | – |
| Margin loans (note (b)) | 1,534,062 | 1,314,308 |
| | 1,534,062 | 1,314,308 |

Notes:

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

The movements in the provision for impairment of loans and advances are as follows:

| | 2017 HK\$'000 | 2016 HK\$'000 |
|----------------------|------------------|------------------|
| At 1st January | 56,111 | 56,350 |
| Exchange differences | 248 | (239) |
| At 31st December | 56,359 | 56,111 |

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

(b) Margin loans to third parties are bearing interest at commercial rates, secured by the underlying pledged securities and are repayable on demand. The carrying values of margin loans approximate to their fair values. No ageing analysis is disclosed as, in the opinion of the directors, an ageing analysis is not meaningful in view of the nature of the business of securities margin financing.

23. FINANCE LEASE RECEIVABLES

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

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

| | 2017 HK\$'000 | 2016 HK\$'000 |
|---|------------------|------------------|
| Non-current receivables (later than 1 year and not later than 5 years) | | |
| Finance leases – gross receivables | 1,136 | – |
| Unearned finance income | (94) | – |
| | 1,042 | – |
| Current receivables (not later than 1 year) | | |
| Finance leases – gross receivables | 400 | – |
| Unearned finance income | (102) | – |
| | 298 | – |
| Net investment in finance leases | 1,340 | – |

The Group leases medical equipment under the agreement which terminates in year 2021. The agreement does not include an extension option.

24. INVENTORIES

| | 2017 HK\$'000 | 2016 HK\$'000 |
|------------------------------|------------------|------------------|
| Properties under development | 319,703 | 253,490 |
| Properties held for sale | 312,678 | 333,463 |
| Other inventories | 1,729 | 877 |
| | 634,110 | 587,830 |

25. TRADE RECEIVABLES

| | 2017 HK\$'000 | 2016 HK\$'000 |
|---|------------------|------------------|
| Due from stockbrokers and clearing houses | 97,688 | 166,603 |
| Due from stockbroking clients | 118,750 | 30,806 |
| Trade receivables – others | 21,543 | 28,251 |
| | 237,981 | 225,660 |
| Provision for impairment | (15,616) | (14,560) |
| | 222,365 | 211,100 |

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

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

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

| | 2017 HK\$'000 | 2016 HK\$'000 |
|--------------|------------------|------------------|
| 0 – 30 days | 220,179 | 209,481 |
| 31 – 60 days | 1,833 | 1,140 |
| 61 – 90 days | 123 | 441 |
| Over 90 days | 230 | 38 |
| | 222,365 | 211,100 |

The movements in the provision for impairment of trade receivables are as follows:

| | 2017 HK\$'000 | 2016 HK\$'000 |
|--|------------------|------------------|
| At 1st January | 14,560 | 15,500 |
| Provision for impairment during the year | 64 | 48 |
| Receivables written off | – | (32) |
| Exchange differences | 992 | (956) |
| At 31st December | 15,616 | 14,560 |

25. TRADE RECEIVABLES *(continued)*

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

| | 2017 HK\$'000 | 2016 HK\$'000 |
|-------------------|------------------|------------------|
| Hong Kong dollars | 192,067 | 113,333 |
| Renminbi | 11,210 | 47,199 |
| US dollars | 18,956 | 50,443 |
| Euro | 61 | 53 |
| Others | 71 | 72 |
| | 222,365 | 211,100 |

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

26. OTHER RECEIVABLES, PREPAYMENTS AND DEPOSITS

| | 2017 HK\$'000 | 2016 HK\$'000 |
|--------------------------|------------------|------------------|
| Non-current | | |
| Prepayments and deposits | 49,322 | – |
| Current | | |
| Other receivables | 39,827 | 24,147 |
| Prepayments and deposits | 30,803 | 23,077 |
| | 70,630 | 47,224 |
| | 119,952 | 47,224 |

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

The Group will establish a joint venture company (the "JV") subject to the approval by the regulatory authorities in the PRC with certain independent third parties. The registered capital of the JV is expected to be RMB2 billion, of which RMB150 million will be contributed by the Group. As at 31st December 2017, the Group has placed a refundable deposit of HK\$3,589,000 (2016: HK\$Nil) for the proposed formation of the JV.

27. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | 2017 HK\$'000 | 2016 HK\$'000 |
|----------------------------------|------------------|------------------|
| Equity securities | | |
| – Listed, Hong Kong | 26,288 | 19,509 |
| – Listed, Overseas | 26 | 55 |
| Market value of financial assets | 26,314 | 19,564 |

Financial assets at fair value through profit or loss are presented within the section of operating activities as part of changes in working capital in the consolidated statement of cash flows (*Note 35*).

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

28. DEPOSITS WITH BANKS

| | 2017 HK\$'000 | 2016 HK\$'000 |
|-------------|------------------|------------------|
| Pledged | 24,264 | 21,291 |
| Non-pledged | – | 2,656 |
| | 24,264 | 23,947 |

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

| | 2017 HK\$'000 | 2016 HK\$'000 |
|----------|------------------|------------------|
| Euro | 24,264 | 21,291 |
| Renminbi | – | 2,656 |
| | 24,264 | 23,947 |

The effective interest rate on the deposits was 1.75% (2016: ranged from 0.002% to 1.75%) per annum.

As at 31st December 2017, deposits of HK\$Nil (2016: HK\$2,656,000) are held in the PRC and are subject to local exchange control regulations. These local exchange control regulations provide for restrictions on exporting capital from the PRC, other than through normal dividends.

As at 31st December 2017, deposits of HK\$24,264,000 (2016: HK\$21,291,000) are pledged to a bank in order to obtain a bank guarantee.

29. CASH AND CASH EQUIVALENTS AND CLIENT TRUST BANK BALANCES

| | 2017 HK\$'000 | 2016 HK\$'000 |
|---------------------------------|------------------|------------------|
| Cash at bank and in hand | 212,786 | 247,099 |
| Short-term bank deposits | | |
| – pledged | 15,000 | 15,000 |
| – non-pledged | 18,589 | 13,354 |
| Total cash and cash equivalents | 246,375 | 275,453 |
| Client trust bank balances | 2,781,688 | 3,050,357 |
| | 3,028,063 | 3,325,810 |

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

| | 2017 HK\$'000 | 2016 HK\$'000 |
|---------------------------|------------------|------------------|
| Cash and cash equivalents | 246,375 | 275,453 |
| Bank overdrafts | – | (524) |
| | 246,375 | 274,929 |

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

| | 2017 HK\$'000 | 2016 HK\$'000 |
|-------------------|------------------|------------------|
| Hong Kong dollars | 2,642,235 | 2,868,319 |
| Renminbi | 189,774 | 192,632 |
| US dollars | 193,635 | 255,055 |
| Euro | 2,419 | 9,804 |
| | 3,028,063 | 3,325,810 |

Bank balances of HK\$122,776,000 (2016: HK\$68,350,000) are held in the PRC and are subject to local exchange control regulations. These local exchange control regulations provide for restrictions on exporting capital from the PRC, other than through normal dividends.

29. CASH AND CASH EQUIVALENTS AND CLIENT TRUST BANK BALANCES *(continued)*

The effective interest rate on short-term pledged deposits ranged from 0.45% to 1.34% (2016: 0.29% to 0.66%) per annum.

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

30. TRADE AND OTHER PAYABLES

| | 2017 HK\$'000 | 2016 HK\$'000 |
|---|------------------|------------------|
| Due to stockbrokers and dealers | 7,705 | 12,003 |
| Due to stockbroking clients and clearing houses | 3,198,960 | 3,239,624 |
| Trade payables | 203,570 | 140,774 |
| Total trade payables | 3,410,235 | 3,392,401 |
| Advance receipts from customers | 34,589 | 16,104 |
| Accruals and other payables | 184,990 | 128,931 |
| | 3,629,814 | 3,537,436 |

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

Trade and other payables to stockbroking clients also include those payables placed in trust and segregated accounts with authorised institutions of HK\$2,781,688,000 (2016: HK\$3,050,357,000).

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

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

30. TRADE AND OTHER PAYABLES *(continued)*

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

| | 2017 HK\$'000 | 2016 HK\$'000 |
|--------------|------------------|------------------|
| 0 – 30 days | 188,920 | 124,771 |
| 31 – 60 days | 2,534 | 3,385 |
| 61 – 90 days | 1,577 | 1,924 |
| Over 90 days | 10,539 | 10,694 |
| | 203,570 | 140,774 |

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

| | 2017 HK\$'000 | 2016 HK\$'000 |
|-------------------|------------------|------------------|
| Hong Kong dollars | 3,186,818 | 3,057,779 |
| Renminbi | 298,536 | 313,410 |
| US dollars | 90,653 | 152,625 |
| Euro | 53,743 | 13,556 |
| Others | 64 | 66 |
| | 3,629,814 | 3,537,436 |

31. BORROWINGS

| | 2017 HK\$'000 | 2016 HK\$'000 |
|-----------------------------|------------------|------------------|
| Non-current | | |
| Bank loans – secured | 205,764 | 213,525 |
| Current | | |
| Other loan – secured | 9,793 | – |
| Bank loans – secured | 431,730 | 345,651 |
| Bank overdrafts – unsecured | – | 524 |
| | 441,523 | 346,175 |
| | 647,287 | 559,700 |

31. BORROWINGS *(continued)*

The borrowings were repayable as follows:

| | Bank loans | | Other loan | |
|-----------------------|------------------|------------------|------------------|------------------|
| | 2017 HK\$'000 | 2016 HK\$'000 | 2017 HK\$'000 | 2016 HK\$'000 |
| Within 1 year | 431,730 | 346,175 | 9,793 | – |
| Between 1 and 2 years | 41,871 | 21,241 | – | – |
| Between 2 and 5 years | 92,115 | 108,439 | – | – |
| Over 5 years | 71,778 | 83,845 | – | – |
| At 31st December | 637,494 | 559,700 | 9,793 | – |

The Group has pledged properties of HK\$186 million (2016: HK\$183 million), investment properties of HK\$241 million (2016: HK\$176 million), leasehold land and land use rights of HK\$36 million (2016: HK\$36 million), properties held for sale of HK\$262 million (2016: HK\$281 million) and fixed deposits of approximately HK\$15 million (2016: HK\$15 million) to secure bank borrowings.

Bank borrowings of HK\$409 million (2016: HK\$330 million) were secured by certain listed securities pledged by the customers to the Group as margin loan collateral which had an aggregate fair value amounting to HK\$1,774 million (2016: HK\$1,316 million).

The other loan of HK\$9,793,000 (2016: HK\$Nil) is secured by certain properties under development of a subsidiary that has received this loan.

Bank borrowings are either repayable on demand or will mature and be repayable in January 2018 to February 2026 and bear floating interest rates. The weighted average effective interest rate at 31st December 2017 was 3.13% (2016: 3.23%) per annum. The carrying amounts of borrowings approximate to their fair values. Out of the total amount, approximately HK\$409,000,000 (2016: HK\$330,000,000), HK\$228,494,000 (2016: HK\$229,176,000) and HK\$Nil (2016: HK\$524,000) are denominated in Hong Kong dollars, Renminbi and Euro, respectively.

32. SHARE CAPITAL

| | 2017 | | 2016 | |
|---|------------------------------------|-----------|------------------------------------|-----------|
| | Number of shares (thousands) | HK\$'000 | Number of shares (thousands) | HK\$'000 |
| Ordinary shares, issued and fully paid: | | | | |
| At 1st January 2017 and 2016 | 1,418,973 | 1,162,940 | 1,413,473 | 1,157,658 |
| Exercise of share options <i>(Note)</i> | – | – | 5,500 | 5,282 |
| At 31st December 2017 and 2016 | 1,418,973 | 1,162,940 | 1,418,973 | 1,162,940 |

32. SHARE CAPITAL (continued)

Notes:

On 24th May 2002, the shareholders of the Company approved the termination of the 1994 Share Option Scheme and the adoption of a new scheme (the "2002 Scheme") to comply with the new requirements of Chapter 17 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"). Due to the expiry of the 2002 Scheme, the shareholders of the Company approved a new share option scheme (the "2014 Scheme") on 23rd May 2014. No share options were granted under the 2014 Scheme during the year. The purpose of the 2014 Scheme is to assist in recruiting, retaining and motivating key staff members. Under the terms of the 2014 Scheme, the directors have the discretion to grant to employees and directors of any member of the Group to subscribe for shares in the Company.

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

For the year ended 31st December 2016, 5,500,000 new shares were issued upon exercise of options under the 2002 Scheme approved by the shareholders of the Company at exercise price HK\$0.68 per share. These shares rank *pari passu* in all respects with the existing shares of the Company. The related weighted average share price at the time of exercise was HK\$1.10 per share.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

| | 2017 | | 2016 | |
|--------------------------------------|--|-------------------------------------|--|-------------------------------------|
| | Average exercise price per share HK\$ | Number of options (thousands) | Average exercise price per share HK\$ | Number of options (thousands) |
| At 1st January | 1.950 | 31,508 | 1.761 | 37,008 |
| Lapsed | 1.950 | (31,508) | – | – |
| Exercised | | – | 0.680 | (5,500) |
| At 31st December | | – | 1.950 | 31,508 |
| Options exercisable at 31st December | | – | | 31,508 |

Share options outstanding at the end of the year have the following expiry dates and exercise prices:

| Expiry date | Exercise price HK\$ | Number of options | |
|---------------|------------------------|---------------------|---------------------|
| | | 2017 (thousands) | 2016 (thousands) |
| 22nd May 2017 | 1.950 | – | 31,508 |

33. RESERVES

| | Attributable to shareholders of the Company | | | | | | |
|---|--|--------------------------------|--|--|--|----------------------------------|-------------------|
| | Employee share-based compensation reserve HK\$'000 | Capital reserve HK\$'000 | Assets revaluation reserve HK\$'000 | Investment revaluation reserve HK\$'000 | Exchange fluctuation reserve HK\$'000 | Retained earnings HK\$'000 | Total HK\$'000 |
| At 1st January 2017 | 34,383 | 38,213 | 12,334 | 194,850 | (4,646) | 1,273,370 | 1,548,504 |
| Profit for the year | - | - | - | - | - | 61,944 | 61,944 |
| Fair value loss on available-for-sale financial assets | - | - | - | (70,626) | - | - | (70,626) |
| Reserves realised upon disposal of a joint venture | - | (165) | - | - | (3,373) | 165 | (3,373) |
| Currency translation differences | - | - | - | - | 87,555 | - | 87,555 |
| Total comprehensive income | - | (165) | - | (70,626) | 84,182 | 62,109 | 75,500 |
| Transfer of reserve upon lapse of share options | (34,383) | - | - | - | - | 34,383 | - |
| Transfer from retained earnings | - | 210 | - | - | - | (210) | - |
| | (34,383) | 210 | - | - | - | 34,173 | - |
| At 31st December 2017 | - | 38,258 | 12,334 | 124,224 | 79,536 | 1,369,652 | 1,624,004 |

Notes to the Consolidated Financial Statements

33. RESERVES (continued)

| | Attributable to shareholders of the Company | | | | | | |
|--|--|--------------------------------|--|--|--|----------------------------------|-------------------|
| | Employee share-based compensation reserve HK\$'000 | Capital reserve HK\$'000 | Assets revaluation reserve HK\$'000 | Investment revaluation reserve HK\$'000 | Exchange fluctuation reserve HK\$'000 | Retained earnings HK\$'000 | Total HK\$'000 |
| At 1st January 2016 | 35,925 | 367,874 | 12,334 | 231,355 | 60,984 | 1,220,165 | 1,928,637 |
| Loss for the year | - | - | - | - | - | (49,909) | (49,909) |
| Fair value loss on available-for-sale financial assets | - | - | - | (36,505) | - | - | (36,505) |
| Reserves realised upon disposal of an associated company | - | (276,540) | - | - | 1,051 | 117,646 | (157,843) |
| Currency translation differences | - | - | - | - | (66,681) | - | (66,681) |
| Share of post-acquisition reserves of an associated company | - | (53,463) | - | - | - | - | (53,463) |
| Total comprehensive loss | - | (330,003) | - | (36,505) | (65,630) | 67,737 | (364,401) |
| Issue of new shares on exercise of share options | (1,542) | - | - | - | - | - | (1,542) |
| Dividend paid | - | - | - | - | - | (14,190) | (14,190) |
| Transfer from retained earnings | - | 342 | - | - | - | (342) | - |
| | (1,542) | 342 | - | - | - | (14,532) | (15,732) |
| At 31st December 2016 | 34,383 | 38,213 | 12,334 | 194,850 | (4,646) | 1,273,370 | 1,548,504 |

Note: As at 31st December 2017, capital reserve mainly represents statutory reserves of the Group's subsidiaries.

34. DEFERRED TAXATION

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

| | 2017 HK\$'000 | 2016 HK\$'000 |
|--------------------------|------------------|------------------|
| Deferred tax assets | (17,405) | (6,843) |
| Deferred tax liabilities | 67,226 | 56,026 |
| | 49,821 | 49,183 |

The gross movements in the deferred taxation are as follows:

| | 2017 HK\$'000 | 2016 HK\$'000 |
|---|------------------|------------------|
| At 1st January | 49,183 | 47,558 |
| Recognised in the consolidated income statement (Note 8(a)) | (3,874) | 4,761 |
| Exchange differences | 4,512 | (3,136) |
| At 31st December | 49,821 | 49,183 |

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

The deferred tax liabilities represented the followings:

| | Depreciation HK\$'000 | Fair value gains HK\$'000 | Withholding tax HK\$'000 | Total HK\$'000 |
|--|--------------------------|---------------------------------|--------------------------------|-------------------|
| At 1st January 2017 | 371 | 57,000 | 4,093 | 61,464 |
| Recognised in the consolidated income statement | (16) | 7,043 | (337) | 6,690 |
| Exchange differences | - | 4,605 | 287 | 4,892 |
| At 31st December 2017 | 355 | 68,648 | 4,043 | 73,046 |

34. DEFERRED TAXATION *(continued)*

The deferred tax liabilities represented the followings: *(continued)*

| | Depreciation HK\$'000 | Fair value gains HK\$'000 | Withholding tax HK\$'000 | Total HK\$'000 |
|--|--------------------------|---------------------------------|--------------------------------|-------------------|
| At 1st January 2016 | 343 | 55,933 | 4,057 | 60,333 |
| Recognised in the consolidated income statement | 28 | 4,314 | 293 | 4,635 |
| Exchange differences | – | (3,247) | (257) | (3,504) |
| At 31st December 2016 | 371 | 57,000 | 4,093 | 61,464 |

The deferred tax assets represented the tax losses:

| | 2017 HK\$'000 | 2016 HK\$'000 |
|---|------------------|------------------|
| At 1st January | 12,281 | 12,775 |
| Recognised in the consolidated income statement | 10,564 | (126) |
| Exchange differences | 380 | (368) |
| At 31st December | 23,225 | 12,281 |

Deferred tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefits through the future taxable profits is probable. The Group did not recognise deferred tax benefits of approximately HK\$188,163,000 (2016: HK\$181,014,000) in respect of tax losses amounting to approximately HK\$861,371,000 (2016: HK\$836,359,000). Out of the total tax losses, approximately HK\$109,013,000 (2016: HK\$140,568,000) will expire within 5 years and the remaining can be carried forward indefinitely against future taxable income.

35. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Cash generated from operations

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

| | 2017 HK\$'000 | 2016 HK\$'000 |
|--|------------------|------------------|
| Profit/(loss) before taxation | 77,639 | (35,844) |
| Share of net loss of an associated company | – | 1,523 |
| Share of net profits of joint ventures | (13,619) | (16,854) |
| Finance income | (25,090) | (22,144) |
| Finance costs | 22,401 | 17,222 |
| Gain on disposal of a joint venture | (354) | – |
| Loss on disposal of an associated company | – | 117,900 |
| Net gain on disposal of property, plant and equipment | (5) | (7) |
| Depreciation | 15,427 | 15,271 |
| Net gain on disposal of investments properties | (1,121) | (742) |
| Fair value gains on investment properties | (31,096) | (15,689) |
| Amortisation of leasehold land and land use rights | 1,590 | 1,607 |
| Provision for impairment of properties held for sale | – | 18,161 |
| Write back of provision for doubtful debts | – | (18) |
| Operating profit before working capital changes | 45,772 | 80,386 |
| (Increase)/decrease in inventories | (14,940) | 6,689 |
| Increase in loans and advances | (219,754) | (182,876) |
| Increase in trade receivables | (11,022) | (52,344) |
| (Increase)/decrease in other receivables, prepayments and deposits | (29,585) | 11,139 |
| Increase in finance lease receivables | (1,340) | – |
| (Increase)/decrease in financial assets at fair value through profit or loss | (6,750) | 628 |
| Increase in trade and other payables | 290,806 | 5,768 |
| Net cash inflow/(outflow) from operating activities | 53,187 | (130,610) |

(b) Reconciliation of liabilities arising from financing activities

| | Liabilities from financing activities | | |
|------------------------------|--|---|-------------------|
| | Borrowing due within 1 year HK\$'000 | Borrowing due after 1 year HK\$'000 | Total HK\$'000 |
| At 1st January 2017 | 345,651 | 213,525 | 559,176 |
| Cash flows | 72,045 | – | 72,045 |
| Foreign exchange adjustments | 1,097 | 14,969 | 16,066 |
| Other non-cash movements | 22,730 | (22,730) | – |
| At 31st December 2017 | 441,523 | 205,764 | 647,287 |

36. CONTINGENT LIABILITIES

| | 2017 HK\$'000 | 2016 HK\$'000 |
|--|------------------|------------------|
| Guarantees for mortgage facilities granted to certain property purchasers of the Group's properties (Note) | 8,217 | 2,046 |

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

37. COMMITMENTS

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

| | 2017 HK\$'000 | 2016 HK\$'000 |
|---------------------------------|------------------|------------------|
| Contracted but not provided for | 422,947 | 504,488 |

(b) **Commitments under operating leases**

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

| | 2017 HK\$'000 | 2016 HK\$'000 |
|---|------------------|------------------|
| Not later than one year | 20,597 | 18,501 |
| Later than one year but not later than five years | 24,818 | 27,971 |
| More than five years | – | 93 |
| | 45,415 | 46,565 |

The future aggregate minimum lease payments under non-cancellable operating leases in respect of property, plant and equipment, and leasehold land and land use rights as follows:

| | 2017 HK\$'000 | 2016 HK\$'000 |
|---|------------------|------------------|
| Not later than one year | 54,192 | 9,117 |
| Later than one year but not later than five years | 146,765 | 11,639 |
| More than five years | – | 40 |
| | 200,957 | 20,796 |

38. RELATED PARTY TRANSACTIONS

- (a) Details of the key management compensation has been disclosed in Note 12.
- (b) As at 31st December 2017, no amount (2016: HK\$2,990,000) due to a joint venture is denominated in Renminbi, unsecured, interest-free and repayable on demand.

39. FINANCIAL RISK MANAGEMENT

39.1 Financial risk factors

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

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

(a) Credit risk analysis

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

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

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

As at year end, the collaterals furnished by the margin clients for security of their loans and advances from the Group are mainly listed securities, the majority of which are listed in Hong Kong. The total market value of securities amounted to HK\$6,397 million (2016: HK\$5,699 million) and margin loans receivable amounted to HK\$1,534 million (2016: HK\$1,314 million).

39. FINANCIAL RISK MANAGEMENT (continued)**39.1 Financial risk factors** (continued)**(a) Credit risk analysis** (continued)

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

The individually impaired amounts were in default or delinquency in payments and are not expected to be recovered. Save as disclosed in the consolidated financial statements, all loans and advances, and trade and other receivables are neither past due nor impaired as at 31st December 2017 and 2016.

None of the financial assets that are fully performing has been renegotiated in 2017 and 2016.

(b) Liquidity risk analysis

Surplus cash is invested in interest bearing current accounts, time deposits, money market deposits and marketable securities by choosing instruments with appropriate maturities or sufficient liquidity to meet operational needs. At the reporting date, the Group held cash at bank and in hand of HK\$212,786,000 (2016: HK\$247,099,000) that are expected to readily generate cash inflows for managing liquidity risk.

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

| | Less than one year 2017 HK\$'000 | More than one year 2017 HK\$'000 |
|---------------------------------|---|---|
| Borrowings and interest payable | 453,204 | 240,274 |
| Trade and other payables | 3,411,387 | 18,232 |
| Financial guarantee contracts | 8,217 | – |
| | 3,872,808 | 258,506 |
| | Less than one year 2016 HK\$'000 | More than one year 2016 HK\$'000 |
| Borrowings and interest payable | 357,480 | 256,645 |
| Trade and other payables | 3,360,059 | – |
| Financial guarantee contracts | 2,046 | – |
| | 3,719,585 | 256,645 |

The amounts disclosed above are the contractual undiscounted cash flows.

39. FINANCIAL RISK MANAGEMENT *(continued)*

39.1 Financial risk factors *(continued)*

(c) Market risk analysis – foreign exchange risk

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

At 31st December 2017, if Renminbi had strengthened/weakened by 5% against the Hong Kong dollars, with all other variables held constant, post-tax profit for the year would have been HK\$2,985,000 higher/lower (2016: post-tax loss would have been HK\$4,347,000 lower/higher), mainly as a result of foreign exchange gain on translation of Renminbi-denominated bank deposits. There is no significant impact on equity as most of the available-for-sale securities are denominated in Hong Kong dollars.

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

(d) Market risk analysis – interest rate risk

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

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

At 31st December 2017, if interest rates on margin loans, cash at bank, bank deposits and bank loans had been 50 basis points higher/lower with all other variables held constant, post-tax profit for the year would have been HK\$4,843,000 higher/lower (2016: post-tax loss would have been HK\$4,457,000 lower/higher). There is no impact on equity.

(e) Market risk analysis – price risk

The Group is exposed to equity securities price risk because investments held by the Group are classified on the consolidated balance sheet either as available-for-sale financial assets or as financial assets at fair value through profit or loss. The Group is not exposed to commodity price risk. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Group.

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

39. FINANCIAL RISK MANAGEMENT *(continued)***39.1 Financial risk factors** *(continued)***(e) Market risk analysis – price risk** *(continued)*

The Group's equity exposures are mainly in long-term equity investments, which are reported as "available-for-sale financial assets" set out in Note 21 to the consolidated financial statements. Equities held for trading purpose are included under "financial assets at fair value through profit or loss" set out in Note 27 to the consolidated financial statements.

At 31st December 2017, if the listed price, quoted price or fair value of each equity investment classified as financial assets at fair value through profit or loss and available-for-sale financial assets had appreciated/depreciated by 10%, with all other variables held constant, post-tax profit for the year would have been HK\$2,631,000 higher/lower (2016: post-tax loss would have been HK\$1,956,000 lower/higher), mainly as a result of unrealised gains/losses on equity securities classified as financial assets at fair value through profit or loss. Equity would have been HK\$18,463,000 (2016: HK\$25,526,000) higher/lower, arising from gain/loss on equity securities classified as available-for-sale financial assets.

39.2 Capital risk management

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

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

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

The gearing ratios at 31st December 2017 and 2016 are as follows:

| | 2017 HK\$'000 | 2016 HK\$'000 |
|-----------------------------------|--------------------------------|------------------|
| Total borrowings <i>(Note 31)</i> | 647,287 | 559,700 |
| Total equity | 2,861,534 | 2,779,870 |
| Gearing ratio | 22.6% | 20.1% |

39. FINANCIAL RISK MANAGEMENT *(continued)***39.3 Fair value estimation**

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

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

The following table presents financial assets that are measured at fair value at 31st December 2017 and 2016. See Note 16 for disclosures of the investment properties that are measured at fair value.

| | Level 1 2017 HK\$'000 | Level 2 2017 HK\$'000 | Total 2017 HK\$'000 |
|---|-----------------------------|-----------------------------|---------------------------|
| Financial assets at fair value through profit or loss | | | |
| – listed securities | 26,314 | – | 26,314 |
| Available-for-sale financial assets | | | |
| – unlisted securities | – | 184,630 | 184,630 |
| | 26,314 | 184,630 | 210,944 |
| | Level 1 2016 HK\$'000 | Level 2 2016 HK\$'000 | Total 2016 HK\$'000 |
| Financial assets at fair value through profit or loss | | | |
| – listed securities | 19,564 | – | 19,564 |
| Available-for-sale financial assets | | | |
| – unlisted securities | – | 255,256 | 255,256 |
| | 19,564 | 255,256 | 274,820 |

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

39. FINANCIAL RISK MANAGEMENT *(continued)*

39.3 Fair value estimation *(continued)*

(a) Financial instruments in level 1

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

(b) Financial instruments in level 2

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

(c) Financial instruments in level 3

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

Specific valuation techniques used to value financial instruments include:

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

40. BALANCE SHEET AND RESERVES MOVEMENT OF THE COMPANY

(a) Balance sheet of the Company

| | <i>Note</i> | 2017 HK\$'000 | 2016 HK\$'000 |
|---|-------------|-------------------------|------------------|
| Non-current assets | | | |
| Property, plant and equipment | | 458 | 494 |
| Investments in subsidiaries | | 103,358 | 103,358 |
| Available-for-sale financial assets | | 184,630 | 255,256 |
| Loans and advances | | 3,750 | 4,575 |
| Total non-current assets | | 292,196 | 363,683 |
| Current assets | | | |
| Other receivables, prepayments and deposits | | 713 | 705 |
| Amounts due from subsidiaries | | 1,580,969 | 1,431,727 |
| Cash and cash equivalents | | 15,289 | 85,860 |
| Total current assets | | 1,596,971 | 1,518,292 |
| Current liabilities | | | |
| Accruals and other payables | | 11,253 | 9,185 |
| Amounts due to subsidiaries | | 76,365 | 34,970 |
| Total current liabilities | | 87,618 | 44,155 |
| Net current assets | | 1,509,353 | 1,474,137 |
| Net assets | | 1,801,549 | 1,837,820 |
| Equity | | | |
| Share capital | | 1,162,940 | 1,162,940 |
| Reserves | 40(b) | 638,609 | 674,880 |
| Total equity | | 1,801,549 | 1,837,820 |

The balance sheet of the Company was approved by the Board of Directors on 23rd March 2018 and was signed on its behalf

LO Yuen Yat
Director

YEUNG Wai Kin
Director

40. BALANCE SHEET AND RESERVES MOVEMENT OF THE COMPANY *(continued)***(b) Reserves movement of the Company**

| | Employee share-based compensation reserve HK\$'000 | Capital reserve HK\$'000 | Investment revaluation reserve HK\$'000 | Retained earnings HK\$'000 | Total HK\$'000 |
|--|--|--------------------------------|--|----------------------------------|-------------------|
| At 1st January 2017 | 34,383 | 2,104 | 194,850 | 443,543 | 674,880 |
| Profit for the year | - | - | - | 34,355 | 34,355 |
| Fair value loss on available-for-sale financial assets | - | - | (70,626) | - | (70,626) |
| Transfer of reserve upon lapse of share options | (34,383) | - | - | 34,383 | - |
| At 31st December 2017 | - | 2,104 | 124,224 | 512,281 | 638,609 |
| | Employee share-based compensation reserve HK\$'000 | Capital reserve HK\$'000 | Investment revaluation reserve HK\$'000 | Retained earnings HK\$'000 | Total HK\$'000 |
| At 1st January 2016 | 35,925 | 2,104 | 231,355 | 473,824 | 743,208 |
| Loss for the year | - | - | - | (16,091) | (16,091) |
| Fair value loss on available-for-sale financial assets | - | - | (36,505) | - | (36,505) |
| Issue of new shares on exercise of share options | (1,542) | - | - | - | (1,542) |
| Dividend paid | - | - | - | (14,190) | (14,190) |
| At 31st December 2016 | 34,383 | 2,104 | 194,850 | 443,543 | 674,880 |

41. APPROVAL OF THE FINANCIAL STATEMENTS

These consolidated financial statements were approved by the Board on 23rd March 2018.