CCT FORTIS

中 建 富 通 集 團 有 限 公 司

Stock Code : 138

2017

# contents

# CHAIRMAN'S STATEMENT

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

2017 was an important year for the Company. We achieved remarkable progress in our strategic decision to diversify and expand into new business ventures with a view to broaden our revenue and increase our Shareholders' value in the long term. Our success in new business development is elaborated in the section headed "Business Review" of this annual report. For the year ended 31 December 2017, the Company continued to achieve solid financial results and reported profit attributable to owners of the parent of HK$181 million, mainly attributable to strong contribution from its property business.

## PROPOSED FINAL DIVIDEND

The Board recommended the payment of a final dividend of HK$0.035 per share for the year 2017 to the Shareholders whose names appear on the register of members of the Company on 4 June 2018, subject to the approval of the Shareholders at the forthcoming AGM. The proposed final dividend will be payable from the Company's distributable reserve and the expected payment date will be 20 June 2018 following the Shareholders' approval at the forthcoming AGM. The total dividend per share for 2017 would amount to HK$0.070 (2016: HK$0.070).

## BUSINESS REVIEW

The Group's array of diversified businesses comprise principally: (i) property development, trading and investment; (ii) securities business; (iii) Blackbird multi-faceted automotive business; (iv) Blackbird multi-media business; (v) Blackbird's new business venture of investment in antique watches and clocks; (vi) cultural entertainment business; and (vii) industrial product business.

## PROPERTY BUSINESS

The countercyclical measures introduced by the Hong Kong Government so far cannot cool down the red hot residential property market. In 2017, housing prices soared and shattered historical record prices as the Centa-City Leading Index rose from approximately 144 points to 165 points during the year. The office property market was also buoyant during 2017, fueled by the sale of Murray Road land plot in May 2017, which set the record prices for the commercial property market. Furthermore, the retail property market showed sign of recovery under the robust local consumption and improving inbound tourism. Against a backdrop of a robust property market, our property business delivered strong results in 2017.

### Property development and trading in Hong Kong

The property comprising the five street-level shops with all the car parking spaces on ground floor of Wah Po Building, New Praya, Kennedy Town, Hong Kong (the "**Wah Po Property**") which was originally held by the Company for trading purpose, was reclassified as property held for investment during 2017 because of its satisfactory rental yield. Currently, the Group's trading property portfolio comprises only the two consecutive floors on No. 8 Russell Street (the "**Russell Street Property**"), located in the center of the busiest shopping and tourist area of Causeway Bay. The fall in tourism in the past few years had adversely affected the retail property market in Causeway Bay. During 2017, we saw recovery in retail market, benefiting from the rebounding inbound tourism and growing local spending during the year.

The trading property segment recorded an operating profit of HK$11 million as opposed to the operating loss of HK$30 million in the comparable year. The change in the operating result was mainly due to the reversal of part of the impairment loss made on the Russell Street Property in the prior year.

### Property investment and holding

Our portfolio of investment properties is diversified and comprises luxury residential houses, office properties, retail properties and shops, industrial properties and car parks. All our investment properties are located in Hong Kong. The value of our investment property portfolio has appreciated significantly over the years.

Taking advantages of the robust property market in 2017, the Group disposed of the investment property located on 32th Floor of Fortis Tower, 77–79 Gloucester Road, Wanchai (the "**32/F Property**") in April 2017. The disposal gave rise to a profit of approximately HK$32 million. During 2017, our property investment portfolio (including the Wah Po Property reclassified to investment property in 2017) recorded fair value gains of HK$302 million in total, thanks to the rising property prices. As a result, this segment delivered a strong operating profit of HK$328 million for 2017, as opposed to an operating loss of HK$13 million for 2016.

## SECURITIES BUSINESS

During 2016, the Group disposed of all its holdings in the shares and convertible bonds of CCT Land. In 2017, the Hong Kong stock market rose substantially with the major stock markets reached their all-time high. As such, the Company's investment committee took extra caution in evaluating potential investments and making investment decision in accordance with our risk profile. In order to minimize our risk in the capital market, we did not invest substantially in stock and did not trade actively in the stock market in 2017. Instead, we focused on the development and expansion of our new business ventures, which made notable progress, as elaborated in the sections below.

## BLACKBIRD AUTOMOTIVE BUSINESS

Under the leadership of Mr. TK Mak, the chief executive officer of the Blackbird Automotive Group, this group is principally engaged as official dealer of Ferrari in Hong Kong, trading of and investment in classic cars and logistics businesses.

### Ferrari dealership

During the year under review, a notable highlight was the signing of a formal dealership agreement with Ferrari (H.K.) Limited by Blackbird Concessionaires Limited (a wholly-owned subsidiary of the Blackbird Automotive Group) in June 2017, under which Blackbird was appointed as the official dealer to distribute Ferrari cars and provide after-sales services in Hong Kong (the "**Dealership Appointment**"). This Dealership Appointment represents an important milestone in the development of the automotive business of the Blackbird Automotive Group. We received support and recognition from customers quickly and achieved many sales orders for new cars within a short period of time after commencement of the dealership business. Regarding marketing, Blackbird organised various marketing and new car launch events, all of which strengthened our relationship with customers and built a very strong bond with those clients. Therefore, Blackbird has been able to prove its ability to drive sales and create business opportunities for the Ferrari dealership quickly.

To cope with the requirements and future development of its Ferrari dealership business, the Blackbird Automotive Group signed leases for its Ferrari showroom in Repulse Bay and for approximately 70,000 square feet of industrial space in Kwai Chung for a after-sales center, soon after the Dealership Appointment. Refurbishment and outfitting of the Kwai Chung service facility to Ferrari standards is now underway and the Company expects it to be operational and generating revenue from May 2018. This property will encompass a full range of Ferrari after-sales services including maintenance, detailing, paint and body shops, parts department and a dedicated vehicle storage area.

### Classic car and logistics businesses

In 2017, Blackbird continued to invest in and trade both modern and classic cars of renowned European brands for our own collection and for our local customers. We believe that cars in our collection are extremely special and have potential for good value appreciation in the future.

Blackbird's logistics business continued to perform well during the year under review. New contracts were achieved with a number of automotive clients in Hong Kong, with further opportunities under discussion. We are the first car logistics provider in Hong Kong to be accredited with the ISO 9001 quality management system certification, guaranteeing professional and transparent procedures. We also acquired additional new and advanced towing tractors during 2017, to cope with the increase in business.

## BLACKBIRD MULTI-MEDIA BUSINESS

Alongside our traditional printing media titles, Blackbird also focuses its investment on various digital platforms including the rapidly-growing mobile game and apps development. We have recruited a strong team of research and development talent and veterans from the gaming industry. Leveraging the momentum and passion for the game of football being driven by the 2018 FIFA World Cup, we launched our major release, Goal DX, in both iOS and Android in December 2017. The game was developed by a reputable game development company in Japan in cooperation with our own engineers. Goal DX is a strategic football game featuring building a player's own team, customising field players, competition with other gamers in the tournament and rich social elements. To promote the game, we have entered into an endorsement contract with Manchester City Football Club, one of the top teams in the English Premier League, with a large fanbase worldwide. Manchester City Football Club has granted us a license to use its copyrighted items in the game. Goal DX has attracted strong market attention and received a good response with thousands daily download since its launch in December 2017. We will carry out new marketing ideas and campaigns to promote this game in the current year.

## BLACKBIRD ANTIQUE WATCHES

As part of the continuing expansion of the Blackbird Group, we have started to invest in antique watches and clocks with the aim of developing our portfolio to span across multiple luxury markets. We have seen significant growth and value appreciation in the vintage watch market in recent years. Led by Mr. TK Mak, the Blackbird Group has built up a professional team to develop and manage our antique watch investments as well as the ability to source and trade vintage watches for our customers. We believe that this new venture will have excellent growth potential and will bring significant returns to the Group in the future.

## CULTURAL ENTERTAINMENT GROUP

Established in 2015, the Cultural Entertainment Group has set a strong foothold in the fast-growing entertainment business sector. We are engaged in diversified entertainment business, including film operations, audio and lighting operations, stage engineering operations and artist management.

**Film operations**

Our major film investment is the high-budgeted Chinese film entitled "Sons of the Neon Night" (風林火山) ("**SONN**"). We invest in this film together with two well-known film companies, namely Beijing J.Q. Media & Culture Company Limited (北京嘉映文化傳媒有限公司) and Shaw Brothers Picture International Limited (邵氏兄弟國際影業有限公司). The main castings of SONN include four very popular and famous male actors from Hong Kong and Taiwan and popular actresses from Hong Kong and mainland China. This film commenced screen shooting during 2017 and finished shootings in early 2018. Post production work of the film has commenced. The management plans to stage world premiere of SONN in one of the major international film festivals. Due to the high quality of the film and the strong castings, this film is expected to be a blockbuster movie when it is released.

The film project which we invested together with Dadi Century (Beijing) Co., Ltd (大地時代文化傳媒(北京)有限公司) entitled "Shed Skin Papa" (脫皮爸爸) was casted by popular artists in Hong Kong and mainland China and was nominated to several awards in the 2016 Japan International Film Festival and also participated in the 2017 Hong Kong Film Awards. The "Shed Skin Papa" (脫皮爸爸) was released in China in March 2018 and is scheduled to be released in Taiwan and Hong Kong in the second quarter of 2018. It is expected that this film will achieve good box office receipts.

We also invested in another film named "兄弟班". This film was created based on a story of a popular pop band in Hong Kong and was invested by us together with Sil-Metropole Organisation Limited (銀都機構有限公司). This film is expected to be released this year.

**Audio and lighting operations**

The audio and lighting operations represent the hiring and installation of lighting and audio equipment and provision of technical services for live pop concerts and other events in Hong Kong, Macau and the PRC. We started these operations in March 2016 by acquiring a majority shareholding in AHM and expand this business horizontally to Macau in October 2016 by acquiring the business and assets from a Macau company.

With a dedicated and experienced team and strong reputation in this sector, the audio and lighting operations are expected to grow in the future.

**Stage engineering operations**

To strengthen our competitive advantage and to expand into the live entertainment and events market, the Cultural Entertainment Group acquired a majority equity-interest in HHL in July 2016. HHL is engaged in the provision of stage mechanical engineering services for live pop concerts and other events in Hong Kong, the PRC, Macau and South-east Asia.

With an experienced and well-trained operation team and high creditability of quality in this field, HHL is well-positioned to grow in the future.

**Artist management**

The Cultural Entertainment Group expanded its entertainment business to artist management in 2017. We have successfully signed in one of the famous female pop singers in Hong Kong. We will look for opportunities to cooperate with more well-known singers and artists in the future.

## INDUSTRIAL GROUP

The Industrial Group is engaged in the manufacture of plastic components and the Child Products Trading Business. During 2017, the Industrial Group recorded revenue of HK$213 million (2016: HK$117 million). The increase in revenue was mainly attributable to the full year contribution from the Child Products Trading Business, as compared with three months' contribution in 2016, after the business was transferred from CCT Land to the Company in 2016. As a result of cost saving measures, the Industrial Group recorded an operating profit of HK$3 million in 2017, as compared with the loss of HK$11 million in 2016.

## OUTLOOK

While we are optimistic about the global economic outlook, the continuing interest hike in US, the threat of protectionism and rising international tensions will continue to impact on the global economy in 2018.

Our trading property and investment property portfolio will continue to be subject to risks in relation to government policies on the property market, Hong Kong economic outlook and the potential interest rate hike. However, we are optimistic about the property market in Hong Kong. We expect that the residential property market will continue to be robust in the long run as supply will continue to fall short of demand at least in the next few years. Interest rate is expected to rise gradually while rising income level of Hong Kong citizens will further raise demand for housing. We are also optimistic about the commercial and retail property market amid the global economic growth and recovery of retail climate and rebound for tourists from the mainland China. Our management may, depending on market situation and development, seize opportunities to dispose of some of our property portfolio in order to realise some of the significant fair value gains and to generate cash flows to further improve our financial position.

After we disposed of our holdings of securities in CCT Land in 2016, we have looked for opportunities to rebuild our securities portfolio. In January 2018, the 14,000,000,000 shares in CCT Land and the convertible bonds of CCT Land with principal value of HK$495,671,000 which we sold in 2016, were transferred back to us at the price of HK$0.01 per share. We are optimistic about our investment in the CCT Land securities and expect that these securities will generate further gains in the future. The Company may further expand its securities portfolio, should suitable buying opportunity arise.

The Board is very happy with the rapid development of the Blackbird Group in the luxury markets. We are optimistic about our new Ferrari dealership business, which is expected to open up a new avenue of income and profit growth for the Group. We maintain our firm commitment to develop the Blackbird multi-faceted automotive operations into a worldwide leader in the automotive region.

We believe that the mobile games and apps development will be another point of growth to the Group. We plan to launch our mobile games in countries and regions outside of Hong Kong, with the aim to set foot in the huge world gaming market. It is expected our mobile game business will have promising prospects and excellent growth potentials.

The PRC has become the second largest film market in the world, just after the US. In light of the increasing number of audience in the PRC, the demand of films especially Chinese language films are expected to increase at a rapid rate. We focus our investment in films to cater for the Chinese market. With a strong operation team and our high reputation in the entertainment industry, we expect that the films which we have invested will generate high grossing. The Group will continue to dedicate its efforts in expanding its film operations, and expect that this business will provide satisfactory returns to the Group in the coming years.

We expect that the operations of the Industrial Group will face increasing difficulties and challenges going forward, amidst rising threats of trade war between US and China. Furthermore, we saw rise in costs of raw materials and components recently, especially plastic resins. Although we do not supply any goods to Toys R Us, the bankruptcy filing by this leading toy store in the world and its plan to close all its US stores have affected the world's child product market as a whole. We will closely monitor the development of the operating environment of the Industrial Group and will consider appropriate measures and initiatives to respond to these challenges.

Our business is in good shape. We have developed a diversified portfolio and business models and an integrated global aspect. Our core strategy is to achieve long term sustainable growth of the Group and create long term value to the Shareholders. We are committed to continue to grow our new business ventures. With a robust balance sheet and solid financial position, the Group is positioned well to continue to deliver sustainable profits and strong financial results in the coming years.

## APPRECIATION

On behalf of the Board, I wish to express our thanks and gratitude to the Directors, the management and all our employees for their dedication, loyalty, and hard work to meet the challenges during the year. I also want to thank our Shareholders, investors, bankers, customers and suppliers for their continued encouragement and strong support to the Group.

**Mak Shiu Tong, Clement**
*Chairman*

Hong Kong, 28 March 2018

# directors and senior management

## EXECUTIVE DIRECTORS

**Mr. MAK Shiu Tong, Clement**, aged 64, is the controlling shareholder of the Company and has acted as the Chairman, the CEO and the Executive Director since January 1994. Mr. Mak is a member of the Remuneration Committee and the chairman and a member of the Nomination Committee. He is also a director of certain subsidiaries of the Company. He is responsible for the corporate planning and overall strategic direction of the Group and takes a leading role in managing the businesses of the Group. He has over 41 years of experience in the manufacture and distribution of telecom, electronic and high intelligence products. Mr. Mak also has extensive experience in diversified businesses, including capital investment and operations, investment in high intelligence telecommunication network and property development and investment business in Hong Kong and the mainland China. In his many years in the businesses, he has demonstrated a keen understanding in the diversified businesses in which the Group is engaged. Mr. Mak is also the chairman, the chief executive officer and an executive director of CCT Land, whose shares are listed on the Main Board of the Stock Exchange. Mr. Mak holds a Diploma in Electrical Engineering.

**Mr. TAM Ngai Hung, Terry**, aged 64, has been the Executive Director and the Group Finance Director since March 2001. He has been appointed as the Deputy Chairman of the Company since December 2005 and as the Company Secretary of the Company since May 2012. He is a member of the Remuneration Committee and the Nomination Committee. He is also a director and company secretary of certain subsidiaries of the Company. Mr. Tam is primarily responsible for the corporate finance, accounting and company secretarial functions of the Group. He has more than 40 years of experience in finance and accounting management, and management experience in diversified businesses. He also possesses substantial knowledge in corporate finance matters, mergers and acquisitions and company secretarial matters. He previously held a number of senior positions in several listed companies before he joined the Company. Mr. Tam is also an executive director and the company secretary of CCT Land. Mr. Tam is a fellow of the Association of Chartered Certified Accountants and an associate of both the Hong Kong Institute of Certified Public Accountants (the "**HKICPA**") and The Institute of Chartered Secretaries and Administrators.

**Ms. CHENG Yuk Ching, Flora**, aged 64, has been the Executive Director since February 1998. Ms. Cheng is also a director of certain subsidiaries of the Company. She assists the CEO in overseeing the day-to-day management of the principal businesses of the Group. Ms. Cheng has over 38 years of experience in the electronics industry and substantial experience in diversified businesses. She held senior positions in various well-known electronics companies before she joined the Company. Ms. Cheng is also an executive director and the deputy chairman of CCT Land. Ms. Cheng holds a Diploma in Business Administration.

**INDEPENDENT NON-EXECUTIVE DIRECTORS**

**Mr. TAM King Ching, Kenny**, aged 68, has been an INED of the Company since December 1999. He is the chairman and a member of the Audit Committee, and a member of the Remuneration Committee and the Nomination Committee. Mr. Tam also serves as an INED of certain listed companies on the Main Board of the Stock Exchange, namely CCT Land, BeijingWest Industries International Limited (stock code: 02339), Hong Kong Shanghai Alliance Holdings Limited (stock code: 01001), Kingmaker Footwear Holdings Limited (stock code: 01170), Shougang Concord Grand (Group) Limited (stock code: 00730), Starlite Holdings Limited (stock code: 00403), West China Cement Limited (stock code: 02233) and Wisdom Education International Holdings Company Limited (stock code: 06068). He is also serving as a member of the Insolvency SD Vetting Committee in the HKICPA. Mr. Tam is also a council member of The Society of Chinese Accountants and Auditors. Mr. Tam is a practising Certified Public Accountant in Hong Kong. He holds a Bachelor's Degree in Commerce and is a fellow member of the HKICPA and a member of the Chartered Professional Accountants of Ontario, Canada.

**Mr. CHEN Li**, aged 53, has been an INED of the Company since February 2008. Mr. Chen is a member of the Audit Committee, the Remuneration Committee and the Nomination Committee. Mr. Chen was previously the INED of CCT Land, until his resignation in June 2015, and an executive director of Sinofortune Financial Holdings Limited (formerly known as "First China Financial Network Holdings Limited") (stock code: 08123), a company listed on the GEM of the Stock Exchange, until his resignation in July 2016. He held a number of senior positions in several reputable telecommunications companies and a conglomerate in China. Mr. Chen graduated from the faculty of physics in a university in China in 1985 with a profession in radio technology and has extensive experience in the Chinese telecommunications and management field.

**Mr. CHOW Siu Ngor**, aged 62, has been an INED of the Company since March 2013. Mr. Chow is the chairman and a member of the Remuneration Committee, and a member of the Audit Committee and the Nomination Committee. Mr. Chow is an INED of CCT Land and REXLot Holdings Limited (stock code: 00555), the shares of which are listed on the Main Board of the Stock Exchange. Mr. Chow is a practising solicitor in Hong Kong. He is currently a Partner with Messrs. King & Wood Mallesons. Mr. Chow graduated from The Chinese University of Hong Kong in 1981 with an Honours Degree in Social Science. He then obtained an Honours Degree in Laws from the University of Birmingham in 1987. Mr. Chow was admitted as a solicitor of the Supreme Court of Hong Kong in 1990 and has been in private practice since then. He was previously a non-executive director of China Baoli Technologies Holdings Limited (formerly known as "REX Global Entertainment Holdings Limited") (stock code: 00164), a company listed on the Main Board of the Stock Exchange, and resigned on 22 September 2015.

## SENIOR MANAGEMENT

**Mr. MAK Chun Kiu, TK**, aged 38, is the Chief Executive Officer of the Blackbird Group. After founding the multi-award winning publishing company in the late 1990's, he built the magazine Milk to become one of the best-selling and most influential weekly lifestyle titles in Hong Kong and the region, expanding his publishing business into mainland China and Taiwan. With over 18 years of experience in the media and publishing as well as the luxury goods retailing industry as a chairman and chief executive officer, alongside other ventures in fashion, online retail, via his multimedia creative agency, leveraging his extensive experience and long history with various luxury sports car manufacturers in the world, TK founded the Blackbird Group. TK's responsibility is to oversee the overall management, strategic direction, planning and growth of the Blackbird Group. TK is the elder son of Mr. Mak.

**Mr. John Brian NEWMAN**, aged 49, is the Chief Operating Officer of the Blackbird Automotive Group. He has 28 years of senior management experience with blue chip sports and luxury car manufacturers, importers and retailers and was a director of a successful motor racing team in Europe. Experienced in sales, marketing, distribution, dealer development, media communications and customer relationship management, he has been with the company since 2014. He holds a Diploma in Business and Finance, is a qualified pilot and has worked in the motor industry in both the UK and Asia.

**Mr. CHEUNG Chi Wah, Patrick**, aged 47, joined the Group in October 1999, resigned in 2010 for his personal development and rejoined the Group in October 2015. He holds the position of Financial Controller and is primarily responsible for the accounting and financial management and business development matters of the Group. Besides his services with the Group, he worked in a leading international accounting firm for about 5 years and held a senior management position in another listed company for 5 years. He has over 22 years of professional experience in corporate finance, financial management, accounting and auditing. He holds an Honours Degree in Accountancy from The Hong Kong Polytechnic University and a Master Degree in Information Technology Management from The Chinese University of Hong Kong. He is an associate of the HKICPA.

**Mr. CHAN Ka Chai**, aged 53, joined the Group in September 2015. Mr. Chan currently holds the position of General Counsel of the Group. Mr. Chan is responsible for giving legal advice on all legal matters of the Group. Mr. Chan is a qualified solicitor in Hong Kong and a member of The Law Society of Hong Kong. Mr. Chan holds a Bachelor of Laws Degree from the University of London and the Postgraduate Certificate in Laws from The University of Hong Kong.

**Mr. CHAN Muk Hing**, aged 63, is the founder and managing director of AHM in which the Group acquired a 70% equity interest in March 2016. AHM is principally engaged in the leasing and installation of audio and lighting equipment and provision of technical services for concerts and other events in Hong Kong, the mainland China and other regions. Mr. Chan is primarily responsible for strategic development of the Audio and Lighting Business and overseeing the overall business operations and the financial performance of the Audio and Lighting Business. Mr. Chan has over 40 years of experience in leasing and installation of audio and lighting equipment and providing related solution consultancy services for live concerts and other events. Prior to founding AHM, Mr. Chan worked in several well-known culture media companies in the entertainment industry including Commercial Radio Hong Kong, Asia Television Limited and Tom Lee Music. He has extensive knowledge in audio equipment and solid experience in audio and lighting controlling operations, live concerts organising and related engineering solution.

**Mr. AU Ka Kam**, aged 60, is the founder and the managing director of HHL in which the Group acquired a controlling interest in July 2016. HHL is principally engaged in the provision of stage mechanical engineering services for live pop concerts and other events in Hong Kong, the mainland China, Macau and South-east Asia. He is primarily responsible for strategic development of the stage metal construction and engineering business of HHL and overseeing the business operations and the financial performance of HHL. Mr. Au has over 30 years of experience in performance stage design, metal construction works and engineering services.

# FINANCIAL REVIEW

## FINANCIAL RESULTS

| HK$ million | **2017** | 2016 | % increase/ (decrease) |
|---|---|---|---|
| Revenue | **585** | 895 | (34.6%) |
| Gross Profit | **72** | 600 | (88.0%) |
| G.P. Ratio | **12.3%** | 67.0% | (81.6%) |
| Profit before tax | **173** | 352 | (50.9%) |
| Income tax credit/(charge) | **6** | (39) | N/A |
| Profit for the year | **179** | 313 | (42.8%) |
| Profit attributable to: | | | |
| Owners of the parent | **181** | 303 | (40.3%) |
| Non-controlling interests | **(2)** | 10 | N/A |
| | **179** | 313 | (42.8%) |
| Return on Equity | **5.6%** | 10.0% | |
| Earnings per share attributable to ordinary equity holders of the parent | | | |
| — Basic | **HK$0.21** | HK$0.36 | (41.7%) |
| — Diluted | **HK$0.16** | HK$0.35 | (54.3%) |
| Dividend per share | **HK$0.07** | HK$0.07 | 0.0% |

### Discussions on Financial Results

In 2017, the Group's revenue of HK$585 million was HK$310 million or 34.6% lower than 2016. The decrease was mainly attributable to the absence of any substantial income from our securities business, which generated gains of HK$506 million in 2016. As a result, the Group's gross profit fell from HK$600 million in 2016 to HK$72 million in 2017, the G.P. Ratio also fell from 67.0% in 2016 to only 12.3% in 2017. These changes were primarily due to the absence of any significant trading profits from our securities business in the reporting year, which may have a G.P. Ratio of 100% as gross profit from sale of securities is recognised as revenue according to the Hong Kong accounting standards.

Profit before taxation for the year under review was HK$173 million, representing a decrease of 50.9% as compared with the comparable year. Profit attributable to owners of the parent of HK$181 million was HK$122 million or 40.3% lower. This decrease was primarily due to the absence of any significant gains from our securities business, partly offset by the strong financial contribution from our property business. Income tax credit was HK$6 million, as opposed to an income tax charge of HK$39 million in prior year. This change was mainly due to reversal of a deferred tax credit of HK$21 million in 2016, whereas no such reversal was recorded in 2017.

Profit attributable to non-controlling interests represented share of results of the minority shareholders in the audio and lighting operations, the stage engineering operations and the mobile game operations.

Return on equity representing profit attributable to owners of parent over average shareholder's equity, was 5.6% in 2017, reduced by 4.4% compared with 10.0% for the last corresponding period. The decrease in return on equity was mainly attributable to decrease in the profit attributable to owners of parent.

## ANALYSIS BY BUSINESS SEGMENT

| | Revenue | | | | |
|---|---|---|---|---|---|
| | **2017** | | 2016 | | % increase/ |
| HK$ million | **Amount** | **Relative %** | Amount | Relative % | (decrease) |
| Property development and trading in Hong Kong | **–** | **0.0%** | – | 0.0% | N/A |
| Property investment and holding | **11** | **1.9%** | 12 | 1.3% | (8.3%) |
| Securities business | **3** | **0.5%** | 514 | 57.4% | (99.4%) |
| Ferrari dealership | **7** | **1.2%** | – | 0.0% | N/A |
| Classic car trading and logistic business | **105** | **17.9%** | 60 | 6.7% | 75.0% |
| Investment in classic cars | **–** | **0.0%** | – | 0.0% | N/A |
| Mobile game operations | **1** | **0.2%** | – | 0.0% | N/A |
| Film operations | **–** | **0.0%** | – | 0.0% | N/A |
| Audio and lighting operations | **149** | **25.5%** | 118 | 13.2% | 26.3% |
| Stage engineering operations | **43** | **7.4%** | 25 | 2.8% | 72.0% |
| Industrial Group | **213** | **36.4%** | 117 | 13.1% | 82.1% |
| Other operations | **53** | **9.0%** | 49 | 5.5% | 8.2% |
| Total | **585** | **100.0%** | 895 | 100.0% | (34.6%) |

| | Operating profit/(loss) | | |
|---|---|---|---|
| | | | % increase/ |
| HK$ million | **2017** | 2016 | (decrease) |
| Property development and trading in Hong Kong | **11** | (30) | N/A |
| Property investment and holding | **328** | (13) | N/A |
| Securities business | **–** | 506 | N/A |
| Ferrari dealership | **(22)** | – | N/A |
| Classic car trading and logistic business | **(11)** | (7) | 57.1% |
| Investment in classic cars | **16** | 13 | 23.1% |
| Mobile game operations | **(26)** | (6) | 333.3% |
| Film operations | **(6)** | (6) | 0.0% |
| Audio and lighting operations | **10** | 22 | (54.5%) |
| Stage engineering operations | **9** | 8 | 12.5% |
| Industrial Group | **3** | (11) | N/A |
| Other operations | **(40)** | (37) | 8.1% |
| Total | **272** | 439 | (38.0%) |

**Property development and trading in Hong Kong**

Benefited from the recovery of the retail market and rebound of tourism, the property development and trading segment recorded an operating profit of HK$11 million, as opposed to an operating loss of HK$30 million in 2016. This change was primarily due to fair value change of the Russell Street Property in 2017, which resulted in the reversal of part of the impairment loss recognised on this property in 2016.

**Property investment and holding**

Our investment properties generated rental revenue of HK$11 million in 2017, decreased by 8.3%, due mainly to the disposal of the 32/F Property. Benefited from the robust property market and soaring property prices, this segment generated a large operating profit of HK$328 million, as opposed to an operating loss of HK$13 million in 2016. This notable change in the segmental results was primarily due to the fair value gains recognised on our investment properties of HK$302 million (including fair value gains on the Wah Po Property) in aggregate and the gain realised on the disposal of the 32/F Property of HK$32 million.

**Securities business**

During the year under review, the result of our securities business was in a breakeven position, as compared with a large operating profit of HK$506 million recorded in the last corresponding year. This change was due to the absence of any significant gains from security trading in 2017, while large gains were derived from disposal of trading securities in 2016.

**Ferrari dealership**

The Ferrari dealership business generated revenue of HK$7 million after commencing operations in November 2017. This new business recorded an operating loss of HK$22 million, mainly as a result of start-up costs. We believe this business will contribute significant revenue stream to the Group and will open up a new avenue of income and profit growth in the coming years.

**Classic car trading and logistic business**

This segment's revenue of HK$105 million, was HK$45 million or 75.0% higher, driven by increase in revenue from trading of classic cars and the logistic business. Operating loss increased by HK$4 million or 57.1%.

**Investment in classic cars**

Investment in classic cars recorded fair value gains of HK$12 million (2016: HK$14 million), as a result of further appreciation of our collection of classic cars held for investment.

**Film operations**

The film operations did not generate any revenue in 2016 and 2017 as the films in which we invested have not yet been released. As such, the film operations incurred a loss of HK$6 million (2016: loss of HK$6 million), represented mainly the administrative expenses of this segment. We expect this business segment will generate income starting from 2018.

**Audio and lighting operations**

The audio and lighting operations recorded revenue of HK$149 million in 2017, increased by 26.3%, due to first full year contribution from these operations, which were acquired by us in 2016. The operating profit of HK$10 million was HK$12 million or 54.5% lower. This decrease was mainly due to increase in costs.

**Stage engineering operations**

The stage engineering operations, which were acquired by us in second half of 2016, generated revenue of HK$43 million in 2017, increased by 72% as compared with 2016, as the operations contributed its first full-year revenue to the Group. This segment delivered an operating profit of HK$9 million, increased by 12.5% as compared with HK$8 million in the comparable year. The percentage increase of operating profit was lower than the percentage increase of revenue, mainly due to rising operating costs in 2017.

**Industrial Group**

The revenue of the Industrial Group was HK$213 million, increased by 82.1% in 2017. This increase was mainly attributable to the full-year contribution from the Child Products Trading Business which was acquired by the Company in the second half of 2016. The Industrial Group recorded an operating profit of HK$3 million in 2017 as opposed to an operating loss of HK$11 million in 2016. This improvement was mainly led by the benefits from the cost-saving measures.

**Mobile game**

The mobile game business started to record revenue of HK$1 million (2016: nil). This business recorded a loss of HK$26 million (2016: HK$6 million), mainly as a result of development costs and start-up expenses. We believe this business will be a key driver for growth of revenue and profits for the Group in the future.

**Other operations**

Other operations include the investment in antique watches and clocks, classic car service center, magazine publishing business, and other new ventures which are in the development and start-up stage. These operations recorded revenue of HK$53 million and incurred an operating loss of HK$40 million, caused mainly by start-up and development costs and operating expenses.

**ANALYSIS BY GEOGRAPHICAL SEGMENT**

| | Revenue | | | | |
|---|---|---|---|---|---|
| | **2017** | | 2016 | | % increase/ |
| HK$ million | **Amount** | **Relative %** | Amount | Relative % | (decrease) |
| Hong Kong, Mainland China and Macau | **401** | **68.5%** | 854 | 95.4% | (53.0%) |
| USA and Canada | **97** | **16.6%** | 18 | 2.0% | 438.9% |
| Europe | **79** | **13.5%** | 11 | 1.2% | 618.2% |
| Others | **8** | **1.4%** | 12 | 1.4% | (33.3%) |
| Total | **585** | **100.0%** | 895 | 100.0% | (34.6%) |

Over 68% of the Group's total revenue was generated in Hong Kong, mainland China and Macau, in which the Group's core businesses are operated. The revenue from these market regions was HK$401 million, decreased by HK$453 million or 53.0% compared with 2016. This decrease was primarily attributable to absence of any significant revenue contribution from the Group's securities business in Hong Kong in 2017, which was the key revenue driver in 2016. The revenue from USA and Canada and Europe represented mainly sale of Child Products and classic cars, respectively.

## CONVERTIBLE BONDS

As at 31 December 2017, the Company had outstanding convertible bonds in issue comprising the 2024 Convertible Bonds with the aggregate principal amount of HK$250.2 million and the 2018 Convertible Bonds with the aggregate principal amount of HK$50 million. Details of the 2024 Convertible Bonds and the 2018 Convertible Bonds are set out in note 33 to the financial statements of this annual report. Further information about the 2024 Convertible Bonds and the 2018 Convertible Bonds are set out as follows:

### (a) 2024 Convertible Bonds

During the year ended 31 December 2017, there was no conversion of the 2024 Convertible Bonds and an aggregate principal amount of HK$250.2 million was outstanding as at 31 December 2017.

The following table set out the shareholding structure of the Company: (i) as at 31 December 2017, and (ii) for illustrative purpose only, the structure immediately after the issue of the 320,769,230 Shares upon full conversion of all the outstanding 2024 Convertible Bonds with principal amount of HK$250.2 million as at 31 December 2017 at the current conversion price of HK$0.78 per conversion share, assuming that there is no other change to the share capital of the Company from 31 December 2017 to the date of allotment and issue of the conversion shares:

| | As at 31 December 2017 | | Immediately after conversion of the all the outstanding 2024 Convertible Bonds and issue of the conversion shares | |
|---|---|---|---|---|
| **Shareholders** | **No. of shares** | **%** | **No. of shares** | **%** |
| Capital Force | **96,868,792** | **11.07** | **327,638,022** | **27.39** |
| New Capital | **171,357,615** | **19.58** | **261,357,615** | **21.85** |
| Capital Winner | **177,798,672** | **20.31** | **177,798,672** | **14.86** |
| Mr. Mak | **13,699,652** | **1.56** | **13,699,652** | **1.15** |
| Sub-total for Mr. Mak and his close associates | **459,724,731** | **52.52** | **780,493,961** | **65.25** |
| Other director: | | | | |
| —Mr. Tam Ngai Hung, Terry | **1,148,000** | **0.13** | **1,148,000** | **0.10** |
| Mr. Lee Hung Shing and his close associate | **59,494,545** | **6.80** | **59,494,545** | **4.97** |
| Total non-public shareholders | **520,367,276** | **59.45** | **841,136,506** | **70.32** |
| Public shareholders | **355,014,176** | **40.55** | **355,014,176** | **29.68** |
| Total | **875,381,452** | **100.00** | **1,196,150,682** | **100.00** |

The outstanding 2024 Convertible Bonds had a dilutive effect on the earnings per share of the Group for the years ended 31 December 2016 and 2017, the calculation of which is set out in note 12 to the financial statements of this annual report.

As bondholder(s) has no right to demand redemption or prepayment of the 2024 Convertible Bonds before the maturity date and the bonds have a relatively long maturity and as such, the outstanding 2024 Convertible Bonds are unlikely to have any immediate negative impact on the financial and liquidity position of the Group. Furthermore, there is likelihood that part or whole of the 2024 Convertible Bonds may be converted into Shares before maturity. In view of the long maturity date of the 2024 Convertible Bonds, the Company will have enough time to arrange financing for repayment of any outstanding bonds on maturity.

The analysis of the Company's share price at which it would be equally financially advantages for the bondholder(s) to convert or redeem the 2024 Convertible Bonds based on their implied rate of return at a range of dates in the future:

| **Suggested conversion date** | **Company's share price** | **Implied rate of return of bondholder** |
|---|---|---|
| | | % |
| 30 June 2018 | HK$0.78 | 5.118 |
| 31 December 2018 | HK$0.78 | 5.118 |

**(b) 2018 Convertible Bonds**

During the year ended 31 December 2016, the 2018 Convertible Bonds with the principal amount of HK$50 million were converted into 45,454,545 Shares issued and allotted to the bondholder. There was no movement of the 2018 Convertible Bonds during the year ended 31 December 2017. The balance of the 2018 Convertible Bonds with an aggregate principal amount of HK$50 million was outstanding as at 31 December 2017.

The following table set out the shareholding structure of the Company: (i) as at 31 December 2017, and (ii) for illustrative purpose only, the structure immediately after the issue of the maximum 41,666,667 Shares upon full conversion of the all the outstanding 2018 Convertible Bonds as at 31 December 2017 during the period from the date falling on the first anniversary of the issue date to the date falling on the third business days prior to the maturity date of the 2018 Convertible Bonds at the conversion price of HK$1.2 per conversion share, assuming that there is no other change to the share capital of the Company from 31 December 2017 to date of the allotment and issue of the conversion shares:

| | As at 31 December 2017 | | Immediately after conversion of the all the outstanding 2018 Convertible Bonds and issue of the conversion shares | |
|---|---|---|---|---|
| **Shareholders** | **No. of shares** | **%** | **No. of shares** | **%** |
| Capital Force | **96,868,792** | **11.07** | **96,868,792** | **10.56** |
| New Capital | **171,357,615** | **19.58** | **171,357,615** | **18.69** |
| Capital Winner | **177,798,672** | **20.31** | **177,798,672** | **19.39** |
| Mr. Mak | **13,699,652** | **1.56** | **13,699,652** | **1.49** |
| Sub-total for Mr. Mak and his close associates | **459,724,731** | **52.52** | **459,724,731** | **50.13** |
| Other director: | | | | |
| —Mr. Tam Ngai Hung, Terry | **1,148,000** | **0.13** | **1,148,000** | **0.13** |
| Mr. Lee Hung Shing and his close associate | **59,494,545** | **6.80** | **101,161,212** | **11.03** |
| Total non-public shareholders | **520,367,276** | **59.45** | **562,033,943** | **61.29** |
| Public shareholders | **355,014,176** | **40.55** | **355,014,176** | **38.71** |
| Total | **875,381,452** | **100.00** | **917,048,119** | **100.00** |

The outstanding 2018 Convertible Bonds did not have any dilutive impact on the earnings per share of the Group for the two years ended 31 December 2016 and 2017.

The bondholder(s) has no right to demand redemption or prepayment of the 2018 Convertible Bonds. As at 31 December 2017, the outstanding amount of 2018 Convertible Bonds is HK$50 million, which represented an insignificant proportion of the Group's total assets. Given the strong financial position of the Group, any repayment (if required) of the 2018 Convertible Bonds on their maturity date is unlikely to impose any significant financial burden and is unlikely to have any significant negative impact on the financial and liquidity position of the Group. Furthermore, there is likelihood that part or whole the outstanding 2018 Convertible Bonds may be converted into Shares before maturity. As such, the possible financial burden arising from the potential repayment of the outstanding 2018 Convertible Bonds is not likely to be significant.

The analysis of the Company's share price at which it would be equally financially advantages for the bondholder(s) to convert or redeem the 2018 Convertible Bonds based on their implied rate of return at a range of dates in the future:

| Suggested conversion date | Company's share price | Implied rate of return of bondholder |
|---|---|---|
| | | % |
| 31 May 2018 (maturity date of the 2018 Convertible Bonds) | HK$1.2 | 1.508 |

**BALANCE SHEET**

| HK$ million | 2017 | 2016 | % increase/ (decrease) |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Investment properties | **1,456** | 1,179 | 23.5% |
| **CURRENT ASSETS** | | | |
| Stock of properties held for sale | **274** | 337 | (18.7%) |
| Trade receivables | **1,661** | 1,812 | (8.3%) |
| Investment in films | **59** | 11 | 436.4% |
| Cash and cash equivalents | **131** | 212 | (38.2%) |
| **EQUITY** | | | |
| Equity attributable to owners of the parent | **3,331** | 3,181 | 4.7% |

**Financial Position**

The investment properties balance was HK$1,456 million, increased by HK$277 million or 23.5% compared with comparable year. This change was mainly attributable to the combined effect of: (i) the disposal of 32/F Property, (ii) the reclassification of the Wah Po Property from "stock of properties held for sale" to "investment property"; and (iii) unrealised fair value gains of approximately HK$302 million in aggregate, arising from revaluation of the investment properties at year end.

Stock of properties held for sale fell by HK$63 million to HK$274 million in 2017, primarily due to the net effect of: (i) reclassification of the Wah Po Property to "investment property"; and (ii) the reversal of part of the impairment provision made for the Russell Street Property.

Trade receivables was HK$1,661 million, decreased by HK$151 million during the year under review, mainly attributable to the net settlement by the debtors. Of the outstanding receivables as at 31 December 2017, approximately 81% were settled after the reporting period, during the period from 1 January 2018 to 16 March 2018.

Investment in films represented the Group's investment in films as at the year end.

Cash and cash equivalents balance was HK$131 million, decreased by HK$81 million in 2017. The Company's funds were applied largely for working capital, new business ventures of the Group and dividend payment.

Equity attributable to owners of the parent as at 31 December 2017 stood at HK$3,331 million, representing an increase of HK$150 million compared with HK$3,181 million at the beginning of the year. This change was primarily attributable to the net profit attributable to owners of the parent for 2017 less the dividend paid during the year.

## CAPITAL STRUCTURE AND GEARING RATIO

| | 2017 | | 2016 | |
|---|---|---|---|---|
| HK$ million | **Amount** | **Relative %** | Amount | Relative % |
| Bank borrowings | **1,338** | **28.5%** | 1,227 | 27.6% |
| Other borrowings | **5** | **0.1%** | – | – |
| Finance lease payable | **9** | **0.2%** | 10 | 0.3% |
| Total borrowings | **1,352** | **28.8%** | 1,237 | 27.9% |
| Equity | **3,350** | **71.2%** | 3,202 | 72.1% |
| Total capital employed | **4,702** | **100.0%** | 4,439 | 100.0% |

The Group's gearing ratio marginally increased from 27.9% as at 31 December 2016 to 28.8% as at 31 December 2017, driven mainly by the net increase in bank borrowings, partly offset by increase in equity. The Group's gearing ratio was maintained at low level, reflecting the strong financial position of the Group.

Total outstanding bank and other borrowings were HK$1,352 million (2016: HK$1,237 million). Approximately 66.3% of these bank borrowings were of long-term nature, primarily representing mortgage loans on properties held by the Group.

As at 31 December 2017, the maturity profile of the bank and other borrowings of the Group falling due within one year, in the second to the fifth year and beyond five years amounted to HK$456 million, HK$518 million and HK$378 million, respectively (2016: HK$383 million, HK$519 million and HK$335 million, respectively). There was no material effect of seasonality on the Group's borrowing requirements.

## LIQUIDITY AND FINANCIAL RESOURCES

| HK$ million | **2017** | 2016 |
|---|---|---|
| Current assets | **2,495** | 2,629 |
| Current liabilities | **702** | 591 |
| Current ratio | **355.4%** | 444.8% |

The Group's current ratio as at 31 December 2017 was 355.4% (2016: 444.8%), reflecting very high liquidity of the Group's assets and a strong financial position.

The Group's cash balance at year end was HK$131 million, decreased by HK$81 million as compared with HK$212 million one year earlier. The Company's funds were applied for working capital, development and expansion of new businesses and dividend payments. In view of the Group's current cash position and the banking facilities available, the Group continued to maintain a sound financial position and has sufficient resources to finance its operations and its future expansion plan.

## CAPITAL COMMITMENTS

As at 31 December 2017, capital commitment of the Group amounted to approximately HK$102 million (2016: HK$97 million). The Group intends to finance the capital commitment partly by internal resources and balance by bank borrowings.

## TREASURY MANAGEMENT

The Group employs a conservative approach to cash management and risk control. To achieve better risk control and efficient fund management, the Group's treasury activities are centralised.

During the financial year 2017, the Group's receipts were mainly denominated in Hong Kong dollar, USD and Euro. Payments were mainly made in Hong Kong dollar, USD, Euro and RMB. Cash was generally placed in short-term deposits denominated in Hong Kong dollar and RMB. In 2017, the Group's borrowings were mainly denominated in Hong Kong dollar, and interest on the borrowings was principally determined on a floating rate basis.

The objective of the Group's treasury policies is to minimise risks and exposures due to the fluctuations in foreign currency exchange rates and interest rates. The Group does not have any significant interest rate risk at present as the interest rates currently remain at low level.

Our current exposure to foreign exchange risk is not significant. We will continue to monitor the currency exposure but we have no intention to enter into any high-risk exchange derivatives.

## ACQUISITION AND DISPOSAL OF MATERIAL SUBSIDIARIES AND ASSOCIATES

During the year under review, the Group did not acquire or dispose of any material subsidiaries and associates.

## SIGNIFICANT INVESTMENT

Save as disclosed in the financial statements of this annual report, the Group did not hold any significant investment as at 31 December 2017 (2016: nil).

## PLEDGE OF ASSETS

Details of the pledge of assets of the Group are set out in note 32(b) to the financial statements of this annual report.

## CONTINGENT LIABILITIES

Details of the Company's contingent liabilities are set out in note 43 to the financial statements of this annual report.

## EMPLOYEES AND REMUNERATION POLICY

The total number of employees of the Group as at 31 December 2017 was 633 (2016: 606). The Group's remuneration policy is built on principle of equality, motivating, performance-oriented and market-competitive remuneration package to employees. Remuneration packages are normally reviewed on an annual basis. Apart from salary payments, other staff benefits include provident fund contributions, medical insurance coverage and performance related bonuses. Share options may also be granted to eligible employees and persons of the Group. At 31 December 2017, there were no outstanding share options issued by the Company.

## REMUNERATION OF SENIOR MANAGEMENT

The remuneration of the senior management of the Group by band and the respective number of employees for the year ended 31 December 2017 are set out below:

| | **Number of employees** |
|---|---|
| HK$1,000,001–HK$1,500,000 | 4 |
| HK$1,500,001–HK$2,000,000 | 1 |
| HK$2,000,001–HK$2,500,000 | 1 |
| | 6 |

# SUSTAINABLE OPERATIONS AND DEVELOPMENT

## SUSTAINABILITY STRATEGY

We regard sustainability as a core strategy in maintaining and developing the Company for the long term and our efforts in fulfilling corporate social responsibility will contribute to the long-term value to the Company and the community in which we operate.

## ENVIRONMENTAL PROTECTION AND PRODUCT SAFETY

Our environmental objective is to operate and develop our business in a manner that minimises the impacts to the environment and natural resources. We endeavor to improve our operation process and products and services in order to maximise efficiency and productivity and minimize wastages. Our policy is to ensure that our operations comply with relevant environmental laws, rules and regulations. We commit to provide high quality products and services and comply fully with the relevant international and local health, quality and safety standards.

## COMPLIANCE WITH THE RELEVANT LAWS AND REGULATIONS THAT HAVE A SIGNIFICANT IMPACT ON THE COMPANY

It is the Company's policy to comply with all the relevant laws and regulations in the places where we operate. The management always keep abreast of the latest development in the laws and regulations which are relevant and have a significant impact on the Group. During the year, there was no significant non-compliance of any laws, regulations or rules that have a significant impact on the Group and its operations.

## RELATIONSHIP WITH CUSTOMERS AND SUPPLIERS

The Group has committed to deliver premium products and services to customers to meet their satisfaction and expectation.

Regarding the Group's property business, we have established very good working relationship with the major property agents in Hong Kong, which facilitate sale, purchase and leasing of properties in the most efficient manner.

Although our classic car business was established in 2014, some of the key personnel have been working in the automotive industry in Hong Kong for many years and possess significant and extensive experience of working with classic cars. Due to our extensive knowledge and expertise in this field, a professional service level and comprehensive relationships with customers and suppliers have been well-established.

Blackbird was appointed as official dealer of Ferrari in Hong Kong during 2017. Since commencement of the Ferrari dealership, we have quickly established very good relationship with our customers and Ferrari is very happy with progress of our dealership business.

The audio and lighting business and the stage engineering business are market leaders in their respective sector and they have established strong reputation and good relationship with their respective customers and suppliers.

We have established a high reputation in the film industry, and have established a very good relationship with various famous and popular artists as well as film distributors and investors in the regions.

We have achieved good progress in development of our mobile game business and our major release Goal DX has received good market response and accolade.

With many years of manufacturing experience, our component factory has a long history of working relationship with its major suppliers. We work closely with them in order to ensure that the component products will meet with customers' requirements at the competitive prices.

## RELATIONSHIP WITH EMPLOYEES

We treasure our employees which are one of the most valuable assets to the Group. We offer competitive remuneration package, provident fund, welfare and benefits and comply with all the relevant labour laws and regulations which apply to our operations. The key management personnel have worked with the Group for a long time.

We encourage staff training and development. Hong Kong employees are encouraged to join external training in job-related courses, seminars and programmes. A comprehensive training programme is in place for new workers in China. In addition, training courses and seminars are organised for different grades of employees from time to time.

Our factory has provided various sport and recreational facilities for enjoyment of employees during their leisure time. A staff club has been established, which organize various recreational and social activities from time to time for the staff and workers.

## WORKPLACE QUALITY

The Group has placed significant resources in providing a safe, healthy, clean and comfortable workplace for our employees, both in Hong Kong and in China. Also, a safety committee has been established in our factory to maintain and monitor safety of the production facilities and the quarters and living areas of workers.

## CONTRIBUTION TO THE COMMUNITY

The Company has contributed its efforts and resources to support the community in which it operates for many years. The Group has donated schools in China and has participated and provided support to various charity activities, both in Hong Kong and China. In 2017, the Group made charitable donations of approximately HK$1 million. Furthermore, the Group also encourages its employees to participate in various charitable activities and volunteering events in the local community in which it has operations.

A corporate social responsibility report will be published on the Stock Exchange’s website and the Company’s website within three months after publication of Company’s annual report.

# corporate information

**COMPANY NAME**
CCT Fortis Holdings Limited

**BOARD OF DIRECTORS**

**Executive Directors**
Mak Shiu Tong, Clement *(Chairman and CEO)*
Tam Ngai Hung, Terry *(Deputy Chairman)*
Cheng Yuk Ching, Flora

**Independent Non-executive Directors**
Tam King Ching, Kenny
Chen Li
Chow Siu Ngor

**COMPANY SECRETARY**
Tam Ngai Hung, Terry

**PRINCIPAL BANKERS**
Nanyang Commercial Bank, Limited
Hang Seng Bank Limited

**SOLICITORS**
Sidley Austin

**AUDITORS**
Ernst & Young, Certified Public Accountants

**FINANCIAL YEAR END**
31 December

**REGISTERED OFFICE**
Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

**HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG**
31/F., Fortis Tower
77–79 Gloucester Road
Hong Kong

**BRANCH SHARE REGISTRAR AND TRANSFER OFFICE IN HONG KONG**
Tricor Tengis Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

**TELEPHONE NUMBER**
+852 2102 8138

**FAX NUMBER**
+852 2102 8100

**COMPANY WEBSITE**
www.cct-fortis.com

**STOCK CODE**
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# corporate governance report

## CORPORATE GOVERNANCE

The Company has always recognised the importance of the Shareholders' transparency and accountability. It is the belief of the Board that the Shareholders can maximise their benefits from good corporate governance. The Company is committed to maintaining and ensuring high standards of corporate governance in the interests of the Shareholders.

In the opinion of the Directors, the Company has complied with all the Code Provisions under the CG Code throughout the financial year ended 31 December 2017, except for the following minor deviations from the Code Provisions of the CG Code:

### Code Provision A.2.1

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

There is no separation of the roles of chairman and chief executive officer of the Company and hence the Company has not complied with the Code Provision A.2.1 during the financial year ended 31 December 2017.

Mr. Mak Shiu Tong, Clement currently assumes the roles of both the Chairman and the CEO. Mr. Mak is an executive of high caliber with a wide range of skills and diversified business expertise. He has substantial experience, strong leadership and a firmly established reputation in the diversified business that is essential to fulfilling the role of the Chairman. At the same time, Mr. Mak has the appropriate management skills and business acumen that are the pre-requisites for assuming the role of the CEO in the day-to-day management of the Group. The Board is composed of three Executive Directors (including the Chairman) and three INEDs with a balance of skills and experience appropriate for the requirements of the Group. Furthermore, the roles of the managing director and general managers of the Company's major operating subsidiaries are performed by other individuals. The Board believes that there is no need to segregate the roles of the Chairman and the CEO as the balance of power and authority is already ensured by the current structure. Furthermore, the Board believes that the combined roles of Mr. Mak enhance the communication between the Board and the management and ensure the effective execution of the Board's strategy by the management because of Mr. Mak's extensive business experience.

### Code Provision A.4.2

Code Provision A.4.2 provides that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after appointment. Every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years.

In accordance with the bye-laws of the Company, any Director appointed to fill a casual vacancy shall hold office only until the next following AGM of the Company and shall then be eligible for re-election. The Board considers that such a deviation is not material as casual vacancy of Directors seldom happens and duration between appointment to fill casual vacancy and the immediate following AGM of the Company is less than one year and is considered to be short.

Pursuant to the bye-laws of the Company, the Chairman and the managing Director (who is currently assumed by Mr. Mak) shall not be subject to retirement by rotation or not shall he be taken into account in determining the number of Directors to retire in each year. The Board considers that the continuity of the Chairman and his leadership will be essential for the stability of the key management of the Group. On the other hand, the Board will ensure that all Directors save for the Chairman will rotate at least once every three years in order to comply with the Code Provision A.4.2.

## MODEL CODE FOR SECURITIES TRANSACTIONS BY THE DIRECTORS

The Company has adopted its code of conduct regarding the securities transactions by the Directors on terms no less exacting than the required standard set out in the Model Code. Having made specific enquiry of all Directors, they confirmed that they have complied with the required standard set out in the Model Code adopted by the Company throughout the financial year ended 31 December 2017.

## THE BOARD

### Responsibilities, accountabilities and contributions

The Board is charged with the responsibility for the promotion of the success of the Company by directing and supervising its affairs in a responsible and effective manner. Each Director has a duty to act in good faith and in the best interests of the Company.

Matters reserved for the Board's decision include those relating to:

— the strategic direction and policies of the Group;

— the objectives of the Group;

— monitoring the performance of the management of the Group;

— ensuring prudent and internal control and risk management systems are in place;

— material bank facilities arrangements;

— material acquisitions and disposals of assets and significant investments;

— material transactions with connected persons;

— material corporate finance transactions including but not limited to placing or sale of shares or convertible bonds, corporate restructuring, take-over, including approval of the announcements and the circulars;

— reviewing and approving interim and annual financial statements, declaration of dividends;

— appointment, re-appointment of auditors and determination of their remuneration;

— reviewing and determination of the terms and remuneration of the Directors; and

— performing the corporate governance duties of the Company.

The management of the Group was delegated the authority and responsibility by the Board for day-to-day management of the businesses of the Group, with division heads responsible for different aspects of the business. The Board meets at least four times each year and meets as and when required. Appropriate and sufficient information including notices were provided to the Board's members in a timely manner. During the financial year ended 31 December 2017, the Board held 11 meetings.

**THE BOARD** *(continued)*

**Responsibilities, accountabilities and contributions** *(continued)*

The Board members have also attended the Shareholders' meeting to answer questions from Shareholders. During the financial year ended 31 December 2017, the Company held one Shareholders' meeting. The attendance of each of the Directors at the Board meetings (either in person or by phone) and at the Shareholders' meeting is set out as follows:

| | Number of Meetings Attended/Eligible to attend | |
|---|---|---|
| **Name of Directors** | **Board** | **Shareholders** |
| Mak Shiu Tong, Clement | 8/11 | 1/1 |
| Tam Ngai Hung, Terry | 11/11 | 1/1 |
| Cheng Yuk Ching, Flora | 11/11 | 1/1 |
| William Donald Putt *(retired on 24 May 2017)* | 2/2 | 0/1 |
| Tam King Ching, Kenny | 11/11 | 1/1 |
| Chen Li | 11/11 | 0/1 |
| Chow Siu Ngor | 11/11 | 1/1 |

The company secretary of the Company is responsible for taking minutes of the Board meetings and all minutes of the Board meetings are open for inspection by the Directors upon reasonable notice.

The Directors have access to relevant and timely information and, upon reasonable request, may seek independent professional advice in appropriate circumstances, at the Company's expenses. Appropriate insurance cover has been arranged in respect of the legal action against the Directors and the management of the Group. The Board considers that the Group has sufficient and appropriate liability insurance to cover the Directors and the management of the Group against any legal liability arising from their performance of duties.

**Board's composition**

As at the date of the annual report, the Board was composed of three Executive Directors, namely Mr. Mak Shiu Tong, Clement (also acting as the Chairman and the CEO), Mr. Tam Ngai Hung, Terry (also acting as the deputy Chairman) and Ms. Cheng Yuk Ching, Flora and three INEDs, namely Mr. Tam King Ching, Kenny, Mr. Chen Li and Mr. Chow Siu Ngor. The Board's composition has maintained a balance and diversity of skills, expertise, experience and qualifications appropriate of the requirements, promotion and development of the businesses of the Group. The biographies of the Directors are set out in the section headed "Directors and Senior Management" in this annual report, which demonstrate a diversity of skills, expertise, experience and qualifications.

During the period from 1 January 2017 to the date of this annual report, there were the following changes to the composition of the Board:

| Name of Director | Details of changes |
|---|---|
| William Donald Putt | Retired as an Executive Director after the conclusion of the 2017 AGM of the Company held on 24 May 2017. |

## THE BOARD *(continued)*

### Board's composition *(continued)*

All the Directors are appointed for a specific term of not more than three years. Save for the Chairman and the managing Director (both roles currently being assumed by Mr. Mak Shiu Tong, Clement) who shall not be subject to retirement by rotation nor shall he be taken into account in determining the number of Directors to retire in each year, all the other directors (including INEDs) are subject to retirement by rotation and re-election at the AGM of the Company in accordance with the bye-laws of the Company.

Directors give sufficient time and attention to the Group's affairs. The Company also requires the Directors to disclose to the Company annually and in a timely manner for any change, the number and the nature of offices held in public companies or organizations and other significant commitments with indications of the time involved.

The Company has received annual confirmation of independence for the year ended 31 December 2017 from Mr. Tam King Ching, Kenny, Mr. Chen Li and Mr. Chow Siu Ngor who are three INEDs of the Company, in accordance with Rule 3.13 of the Listing Rules. The Board has assessed the independence of all INEDs and concluded that all INEDs of the Company are independent within the definition of the Listing Rules. Those INEDs who serve the Company for more than nine years have met the specific independence guideline as set out in Rule 3.13 of the Listing Rules.

The Company has complied with Rules 3.10(1), 3.10(2) and 3.10A of the Listing Rules relating to the appointment of a sufficient number of the INEDs, at least an INED with appropriate professional qualifications or accounting or related financial management expertise and the number of INEDs representing at least one-third of the Board throughout the financial year ended 31 December 2017.

None of the members of the Board has any financial, business, family or other material/relevant relationships with each other.

### Directors' continuing professional development

A newly appointed Director is provided with necessary induction and information to ensure he/she has a proper understanding of the Group's operations and businesses as well as his/her responsibilities under the Listing Rules and the other applicable regulatory requirements. The Company also provides Directors with updates and briefings on the latest developments and changes regarding the Listing Rules and other applicable regulatory requirements from time to time so as to ensure compliance and enhance their awareness of good corporate governance practices. Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. Directors are requested to provide the Company with a record of the training they received.

**THE BOARD** *(continued)*

**Directors' continuing professional development** *(continued)*

According to the records provided by the Directors, a summary of training received by the Directors for the year ended 31 December 2017 is as follows:

| | Type of Continuous Professional Development | |
|---|---|---|
| **Name of the Directors** | **Receiving updates and briefings from the Company/self-study** | **Attending seminar(s)/ conference and/ or forums organised by external parties** |
| Mak Shiu Tong, Clement | ✓ | |
| Tam Ngai Hung, Terry | ✓ | ✓ |
| Cheng Yuk Ching, Flora | ✓ | |
| William Donald Putt | | |
| Tam King Ching, Kenny | | ✓ |
| Chen Li | ✓ | |
| Chow Siu Ngor | ✓ | ✓ |

The training participated by the Directors in 2017 is relevant to their duties and responsibilities as a director of the Company.

**THE CHAIRMAN AND THE CEO**

Mr. Mak Shiu Tong, Clement currently assumes the roles of both the Chairman and the CEO. The reasons for the deviation from the Code Provision A.2.1 under the CG Code are set out in the section headed "Corporate Governance" above. Mr. Mak is responsible for the leadership of the Board, corporate planning and strategic direction of the Group and takes a leading role in managing the businesses of the Group.

**RE-ELECTION AND RETIREMENT OF THE DIRECTORS**

The bye-laws of the Company provide that (i) each Director (except the Chairman and the managing Director) is required to retire by rotation at least once every three years and that one-third (or the number nearest to but not less than one-third) of the Directors shall retire from office by rotation and be eligible for re-election at each AGM of the Company; and (ii) any Director appointed by the Board, either to fill a casual vacancy on or as an addition to the existing Board, shall hold office only until the next following AGM of the Company and shall then be eligible for re-election at that meeting.

**BOARD COMMITTEES**

The Board currently has established three committees which are the Remuneration Committee, the Audit Committee and the Nomination Committee, with clearly defined written terms of reference. The main roles and responsibilities of these three committees, including all authorities delegated to them by the Board, as set out in the terms of reference, are published on the website of the Stock Exchange at www.hkexnews.hk and the website of the Company at www.cct-fortis.com in the sub-section of "Corporate Governance" under the section of "Investor Information".

## BOARD COMMITTEES *(continued)*

### Remuneration Committee

The Remuneration Committee was established in 2005 with specific written terms of reference formulated in accordance with the requirements of the Listing Rules. The main responsibilities of the Remuneration Committee include, inter alia, (i) making recommendations to the Board on the policy and structure for the remuneration of the Directors and senior management of the Group; (ii) reviewing the management's remuneration proposals with reference to the Board's corporate goals and objectives; (iii) making recommendations to the Board on the remuneration package of individual Executive Directors and senior management of the Group (adopting the approach described under Code Provision B.1.2 (c) of the CG Code); (iv) reviewing and making recommendations to the Board the fees payable to the INEDs of the Company; and (v) reviewing and making recommendations to the Board on the compensation, if any, payable to Executive Directors and senior management in connection with any loss or termination of office or appointment.

The Remuneration Committee is composed of five members who are three INEDs, namely Mr. Tam King Ching, Kenny, Mr. Chen Li and Mr. Chow Siu Ngor ("**Mr. Chow**") and two Executive Directors, namely Mr. Mak Shiu Tong, Clement and Mr. Tam Ngai Hung, Terry. The Remuneration Committee is currently chaired by Mr. Chow.

During the financial year ended 31 December 2017, the Remuneration Committee held one meeting and its main work during 2017 included:

(i) reviewing and making recommendations to the Board on the policy and structure for the remuneration of the Directors and senior management of the Group; and

(ii) reviewing and making recommendations to the Board on the remuneration package of the Directors and senior management of the Group.

For the sake of good corporate governance practice, none of the members of the Remuneration Committee participated in the discussions and decision on matters relating to his or her remuneration.

The attendance record of the members at the meeting of the Remuneration Committee in 2017 is set out as follows:

| Members of the Remuneration Committee | Number of meetings attended/held |
|---|---|
| Chow Siu Ngor | 1/1 |
| Tam King Ching, Kenny | 1/1 |
| Chen Li | 1/1 |
| Mak Shiu Tong, Clement | 1/1 |
| Tam Ngai Hung, Terry | 1/1 |

The Group provides competitive remuneration packages to the Directors and senior management. The emoluments of Directors are determined based on skill, knowledge, experience and performance of the Directors and achievements and performance of the Company and taking into account market conditions. In addition, approved share option scheme has been established to provide incentives and rewards to eligible participants which include Directors and senior management.

**BOARD COMMITTEES** *(continued)*

**Audit Committee**

The Company has established the Audit Committee since 2000 with specific written terms of reference formulated in accordance with the requirements of the Listing Rules. The primary duties of the Audit Committee are to ensure the objectivity and credibility of the Company's financial reporting, risk management and internal control systems as well as to maintain an appropriate relationship with the external auditors of the Company.

The main responsibilities of the Audit Committee include, inter alia, (i) reviewing the financial statements of the Group's interim and annual reports before submitting them to the Board for approval; (ii) reviewing and making recommendations to the Board on the appointment, re-appointment and removal of the external auditors and the terms of engagement including the remuneration of the external auditors; (iii) discussing with the external auditors the nature and scope of the audit; (iv) monitoring and assessing the independence and objectivity of the external auditors and the effectiveness of the audit process in accordance with the applicable standards; (v) reviewing and monitoring the financial reporting and the reporting judgment contained in them; (vi) reviewing the financial controls, risk management and internal control systems (including the adequacy of resources, and the effectiveness of the financial and internal audit function); and (vii) to review the Group's accounting policies and practices and any changes of them with the management of the Group, and the internal and external auditors of the Company.

The Audit Committee is composed of three members who are three INEDs, namely Mr. Tam King Ching, Kenny ("**Mr. Tam**"), Mr. Chen Li and Mr. Chow Siu Ngor. Mr. Tam is a qualified accountant and has extensive experience in accounting and financial matters. The Audit Committee is currently chaired by Mr. Tam.

The Audit Committee has been provided with sufficient resources to perform its duties.

During the financial year ended 31 December 2017, the Audit Committee held four meetings and its main work during 2017 included reviewing:

(i) the 2016 annual report, including the Corporate Governance Report, Directors' Report and the Financial Statements, as well as the related results announcement;

(ii) the 2017 interim report and interim results announcement;

(iii) the plans, reports, fees, involvement in non-audit services and terms of engagement of the external auditors;

(iv) the plans, resources and work of the Company's internal auditors; and

(v) the adequacy and effectiveness of the Company's financial reporting system, the system of internal controls in operation, risk management system and associated procedures within the Group.

The attendance record of the members at the meetings of the Audit Committee in 2017 is set out as follows:

| Members of the Audit Committee | Number of meetings attended/held |
|---|---|
| Tam King Ching, Kenny | 4/4 |
| Chen Li | 4/4 |
| Chow Siu Ngor | 4/4 |

## BOARD COMMITTEES *(continued)*

### Nomination Committee

The Company has established a Nomination Committee since 2012 with specific written terms of reference in line with the Code Provisions under the CG Code. The main responsibilities of the Nomination Committee include, inter alia, (i) reviewing the structure, size and composition (including the skills and knowledge and experience) of the Board at least annually; (ii) making recommendations on any proposed changes to the Board to complement the Company's corporate strategy; (iii) identifying individuals suitably qualified to become board members and selecting or making recommendations to the Board on the selection of individuals nominated for directorships; (iv) assessing the independence of INEDs; and (v) making recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors, in particular the Chairman and the CEO.

The Board has adopted a Board Diversity Policy in August 2013 which sets out the approach to achieve diversity on the Board. The Company sees increasing diversity at the Board level as an essential element in supporting the attainment of its strategic objectives and its sustainable development. As from the adoption of the Board Diversity Policy, the Company seeks to achieve Board diversity through a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board. The Nomination Committee will review the Board Diversity Policy, as appropriate to ensure its continued effectiveness from time to time.

The Nomination Committee is composed of five members who are three INEDs, namely Mr. Tam King Ching, Kenny, Mr. Chen Li and Mr. Chow Siu Ngor and two Executive Directors, namely Mr. Mak Shiu Tong, Clement ("**Mr. Mak**") and Mr. Tam Ngai Hung, Terry. The Nomination Committee is currently chaired by Mr. Mak.

During the financial year ended 31 December 2017, the Nomination Committee held one meeting and its main work during 2017 included:

(i) reviewing the structure, size, composition and diversity of the Board;

(ii) assessing the independence of the INED of the Company; and

(iii) reviewing the succession planning for the Board.

The attendance record of the members at the meeting of the Nomination Committee in 2017 is set out as follows:

| Members of the Nomination Committee | Number of meeting attended/held |
|---|---|
| Mak Shiu Tong, Clement | 1/1 |
| Tam Ngai Hung, Terry | 1/1 |
| Tam King Ching, Kenny | 1/1 |
| Chen Li | 1/1 |
| Chow Siu Ngor | 1/1 |

## CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing corporate governance duties which include (i) developing, reviewing and approving the Company's policies and practices on corporate governance; (ii) reviewing and monitoring the training and continuous professional development of Directors and senior management; (iii) reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements; (iv) developing, reviewing and monitoring the code of conduct and compliance manual (if any) applicable to employees and Directors; and (v) reviewing the Company's compliance with the code and disclosure in the Corporate Governance Report.

During the financial year ended 31 December 2017, the Board held two meetings to develop and review the Company's policy and practice on corporate governance and to perform other corporate governance duties stated in the paragraph above. The attendance record of the members of the Board at the corporate governance meetings in 2017 is set out as follows:

| **Directors** | **Number of meeting attended/Eligible to attend** |
|---|---|
| Mak Shiu Tong, Clement | 2/2 |
| Tam Ngai Hung, Terry | 2/2 |
| Cheng Yuk Ching, Flora | 2/2 |
| William Donald Putt (retired on 24 May 2017) | 1/1 |
| Tam King Ching, Kenny | 2/2 |
| Chen Li | 2/2 |
| Chow Siu Ngor | 2/2 |

## AUDITORS' REMUNERATION

The remuneration paid to the external auditors of the Company, Ernst & Young, for the year ended 31 December 2017 is set out as follows:

| **Services rendered** | **Fees paid/payable** |
|---|---|
| | HK$'000 |
| Audit services | 2,700 |
| Non-audit services: | |
| Tax compliance services | 50 |
| Other services | 155 |
| Total | 2,905 |

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for the preparation of the financial statements of the Company and ensure that they are prepared in accordance with the statutory requirements and applicable accounting standards. The Directors also ensure the timely publication of such financial statements. The Directors aim to present a balanced and understandable assessment of the Group's position and prospects.

The statement of the external auditors of the Company, Ernst & Young, with regard to their reporting responsibilities on the Company's financial statements is set out in the section headed "Independent Auditors' Report" in this annual report.

The Directors confirm that, to the best of their knowledge, information and belief, having made all reasonable enquiries, they are not aware of any material uncertainties relating to the events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

## RISK MANAGEMENT AND INTERNAL CONTROL AND INTERNAL AUDIT

The Board is entrusted with the overall responsibility for establishing and maintaining the Group's risk management and internal control systems on an ongoing basis and reviewing their effectiveness. The Group's risk management and internal control systems have been designed for safeguarding assets, maintaining proper accounting records and ensuring reliability of the financial information. The Board also reviews and considers the adequacy of resources, staff qualifications and experience, and training programmes and budget of the Company's accounting, internal audit and financial reporting function.

The Company has established the internal audit department for many years and the department performs risk-based audit on the effectiveness of the internal control system of the Group. The internal audit department of the Company reports to the Chairman. The annual audit plan of the internal audit department is reviewed and approved by the Audit Committee and summary of major audit findings and control weaknesses, if any, and follow-up actions are reviewed by the Audit Committee.

### Objective of risk management and internal control

The Company recognises the importance the risk management and internal control in the achievement of its strategic goals. The Company maintains a conservative approach to manage and align risk to its strategy of achieving sustainability and delivering long-term returns to the Shareholders.

**RISK MANAGEMENT AND INTERNAL CONTROL AND INTERNAL AUDIT** *(continued)*

**Process and procedure for risk management and internal control**

1. The Board has the overall responsibility for evaluating the nature and extent of the risks it is willing to take in achieving the Group's strategic objectives, and ensuring that the Group establishes and maintains appropriate and effective risk management and internal control systems. The Board oversees management in the design, implementation and monitoring of the risk management and internal control systems.

2. The Board through the Audit Committee, reviews the adequacy the Group's risk management and internal control systems.

3. The Group employs an enterprise risk management framework to manage risk.

4. The management of business unit/divisions are responsible for the day-to-day management of operational risks and implementation of mitigation measures.

5. All division heads are required to provide a confirmation annually to the Board on the effectiveness of the risk management and internal control systems.

6. The internal audit department of the Group is responsible for review and appraising effectiveness of risk management and internal control systems and report results to the Board through the Audit Committee.

**Top and emerging risks**

Our top and emerging risks framework helps enable the Group to identify current and forward-looking risk so that the Group may take actions that either prevents them, crystallising or limits their effect. Top risks are those that may have a material impact on the financial results, reputation or business model of the Group in the year ahead. Emerging risks are those that have large unknown components and may form beyond a one-year horizon. If these risks were to occur, they could have material effect on the Group. The Group's top and emerging risks are summarized as follows:

— geopolitical risks;

— global economic outlook and capital flows;

— rising threats of protectionism and trade war between US and China;

— financial market risks;

— major changes of government policies that have significant impact on the Group's operations;

— information technology security and risks;

— sales and receivable management;

— procurement and supplier management; and

— human resources management.

The above list of top and emerging risks were reviewed by the Audit Committee and discussed by the Board in the year ended 31 December 2017. Measures have been formulated and implemented to mitigate such risks. These risks will be changed to respond to changes in the Group's business and the external environment.

## COMPANY SECRETARY

Mr. Tam Ngai Hung, Terry who is the Executive Director and the deputy chairman of the Company, has been appointed as the company secretary of the Company since 10 May 2012. The biographical details of Mr. Tam are set out under the section headed "Directors and Senior Management" in this annual report.

Mr. Tam has taken no less than 15 hours of relevant professional training during the financial year ended 31 December 2017.

## SHAREHOLDERS' RIGHTS

### Right to convene special general meeting

Shareholder(s) holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the company secretary of the Company, to require a special general meeting to be called by the Board for the transaction of any business specified in such requisition; and such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionists themselves may do so in accordance with the provisions of Section 74(3) of the Companies Act 1981 of Bermuda.

### Right to put enquiries to the Board

Shareholders have the right to put enquiries to the Board and all such enquiries can be addressed to the Company Secretarial Department of the Company by mail to 31/F., Fortis Tower, 77–79 Gloucester Road, Hong Kong.

### Right to put forward proposals at general meetings

Pursuant to Article 88 of the Company's Bye-laws, no person other than a Director retiring at the meeting shall, unless recommended by the Directors for election, be eligible for election as a Director at any general meeting unless a nomination notice signed by such Shareholder(s) individually or collectively holding not less than one-tenth of the then total paid up capital of the Company as at the date of the nomination notice carrying the right of attending and voting at the general meeting of the Company for which such nomination notice is given of his intention to propose such person(s) for election and also a notice signed by each person to be proposed of his willingness to be elected shall have been lodged at the head office or at the registration office provided that the number of candidates to be nominated by the qualified Shareholder individually or the group of qualified Shareholders collectively for election at any general meeting shall be limited to three (3), subject to the maximum number of Directors of the Company, if any, and provided that the minimum length of the period during which such notices are given, shall be at least seven (7) days and that (if the notices are submitted after the despatch of the notice of the general meeting appointed for such election) the period for lodgment of such notices shall commence on the day after the despatch of the notice of the general meeting appointed for such election and end no later than seven (7) days prior to the date of such general meeting.

### Investor relations

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

# report of the directors

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2017.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of the subsidiaries consist of (i) property development, trading and investment; (ii) securities business; (iii) Blackbird multi-faceted automotive business; (iv) Blackbird multi-media business; (v) Blackbird's new business venture of investment in antique watches and clocks; (vi) cultural entertainment business; and (vii) industrial product business.

## BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2017 is set out on pages 2 to 7 and pages 11 to 23.

## RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2017 and the Group's financial position at that date are set out in the financial statements on pages 55 to 156.

An interim dividend of HK$0.035 per ordinary share was paid on 29 September 2017.

The Directors have recommended the payment of a final dividend of HK$0.035 (2016: HK$0.035) per ordinary share in respect of the year to shareholders whose names appear on the register of members of the Company on 4 June 2018 subject to the approval of the shareholders of the Company at the forthcoming AGM. This recommendation had been incorporated in the financial statements as an allocation of distributable reserve within the equity section of the statement of financial position.

## FIVE YEAR FINANCIAL SUMMARY

A summary of the published results and assets and liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited financial statements and restated/reclassified as appropriate, is set out on page 160. This summary does not form part of the audited financial statements.

## PROPERTY, PLANT AND EQUIPMENT AND INVESTMENTS PROPERTIES

Details of movements in the property, plant and equipment and the investment properties of the Company and the Group during the year are set out in notes 13 and 14 to the financial statements, respectively.

## SHARE CAPITAL

During the year ended 31 December 2017, a total of 2,468,000 shares were repurchased and cancelled under the Company's general mandate to buy back the Shares on the Stock Exchange in accordance with the Listing Rules, details of which were disclosed in the section headed "Purchase, Sale or Redemption of the Listed Shares" of this report.

Details of the shares issued by the Company during the year ended 31 December 2017 are disclosed in note 36 to the consolidated financial statements.

## EQUITY-LINKED AGREEMENT

On 27 January 2016 the Company entered into the Sale and Purchase Agreement (as amended and supplemented by the supplemental agreement dated 17 February 2016) with Mr. Mak as vendor in relation to the acquisition of the entire issued share capital of the companies which hold the properties situated at House 38 and House 39, No. 56 Repulse Bay Road, Repulse Bay, Hong Kong and issued the 2024 Convertible Bonds with aggregate principal amount of HK$250,200,000 to Mr. Mak or his designated nominee(s) as settlement of the consideration for acquisition of the shares. The 2024 Convertible Bonds are unsecured, carry interest at 5% per annum on the outstanding principal amount, have a term of eight years from the date of issue and are redeemable at the option of the Company before the maturity date. Subject to the terms and conditions of the 2024 Convertible Bonds, holder(s) of the 2024 Convertible Bonds has a right to convert the convertible bonds into the Shares at current conversion price of HK$0.78 per conversion share (subject to adjustments pursuant to the terms and conditions of the convertible bonds). New Shares will be allotted and issued upon conversion of the 2024 Convertible Bonds, created as fully paid and will rank pari passu with all existing shares of the Company. During the year, there was no movement of the 2024 Convertible Bonds.

On 30 May 2016, the Company entered into the Subscription Agreement with Top Pride Limited in relation to the subscription and issue of the 2018 Convertible Bonds with aggregate principal amount of HK$100,000,000. The 2018 Convertible Bonds are unsecured, carry interest at 1.5% per annum on the outstanding principal amount, have a term of two years from the date of issue and are redeemable at the option of the Company before the maturity date. Subject to the terms and conditions of the 2018 Convertible Bonds, holder(s) of the 2018 Convertible Bonds has a right to convert the convertible bonds into the Shares at the conversion price of HK$1.10 per conversion share (subject to adjustments pursuant to the terms and conditions of the convertible bonds) during the period from the issue date to the date immediately prior to the first anniversary of the issue date, and HK$1.20 per conversion share (subject to adjustments pursuant to the terms and conditions of the convertible bonds) during the period from the date falling on the first anniversary of the issue date to the date falling on the third business days prior to the maturity date. New Shares will be allotted and issued upon conversion of the 2018 Convertible Bonds, created as fully paid and will rank pari passu with all existing shares of the Company. The 2018 Convertible Bonds with the principal amount of HK$50 million were converted at HK$1.1 per conversion share in 2016. During 2017, there was no movement of the 2018 Convertible Bonds.

Other than the 2024 Convertible Bonds and 2018 Convertible Bonds disclosed above and the share option scheme disclosed in other section of this directors' report, no other equity-linked agreements that will or may result in the Company issuing shares or that require the Company to enter into any agreements that will or may result in the Company issuing shares were entered into by the Company during the year or subsisted at the end of the year.

## PRE-EMPTIVE RIGHTS

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

## PURCHASE, SALE OR REDEMPTION OF THE LISTED SHARES

Save for the repurchase of Shares as mentioned below, neither the Company, nor any of its subsidiaries has purchased, sold or redeemed any of the listed Shares during the year ended 31 December 2017.

During the year, the Company repurchased a total of 2,468,000 Shares through the Stock Exchange for an aggregate consideration of HK$2,495,820. The Shares repurchased were subsequently cancelled on 28 December 2017. Details of the repurchase of Shares are as follows:

| Date | No. of Shares repurchased | Highest price paid per share (HK$) | Lowest price paid per share (HK$) | Aggregate consideration (HK$) |
|---|---|---|---|---|
| 4 December 2017 | 1,228,000 | 1.02 | 1.00 | 1,233,600 |
| 5 December 2017 | 750,000 | 1.03 | 1.00 | 763,700 |
| 6 December 2017 | 490,000 | 1.03 | 1.01 | 498,520 |
| | 2,468,000 | | | 2,495,820 |

## RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 52 to the financial statements and in the consolidated statement of changes in equity, respectively.

## DISTRIBUTABLE RESERVES

At 31 December 2017, the Company's reserve available for distribution, calculated in accordance with the provisions of the Companies Act 1981 of Bermuda, amounted to HK$902 million, of which HK$31 million has been proposed as a final dividend for the year. In addition, the Company's share premium account, in the amount to HK$224 million, may be distributed in the form of fully paid bonus shares.

## CHARITABLE CONTRIBUTIONS

During the year, the Group made charitable contributions totally HK$1 million (2016: HK$2 million).

## MAJOR CUSTOMERS AND SUPPLIERS

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

| | Percentage of the Group's total | | | |
|---|---|---|---|---|
| | Sales | | Purchases | |
| | **2017** | 2016 | **2017** | 2016 |
| Largest customer | **18%** | 8% | | |
| Five largest customers in aggregate | **44%** | 14% | | |
| Largest supplier | | | **7%** | 11% |
| Five largest suppliers in aggregate | | | **18%** | 39% |

None of the directors of the Company or any of their close associates or shareholders (which, to the knowledge of the Directors own more than 5% of the number of issue shares) had any interest in the Group's five largest customers or suppliers.

## DIRECTORS

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

**Executive Directors:**
Mak Shiu Tong, Clement
Tam Ngai Hung, Terry
Cheng Yuk Ching, Flora
William Donald Putt *(retired after the conclusion of the 2017 AGM of the Company held on 24 May 2017)*

**Independent non-executive Directors:**
Tam King Ching, Kenny
Chen Li
Chow Siu Ngor

In accordance with the bye-laws of the Company, Mr. Tam Ngai Hung, Terry, Mr. Chen Li and Mr. Tam King Ching, Kenny will retire and, being eligible, offer themselves for re-election at the forthcoming AGM of the Company according to the bye-laws of the Company.

In accordance with the bye-laws of the Company, save for the Chairman and the managing Director (both roles currently being assumed by Mr. Mak Shiu Tong, Clement), who is not subject to retirement by rotation nor taken into account in determining the number of Directors to retire, all Directors are subject to retirement by rotation and re-election at least once every three years at the AGM of the Company.

## DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 8 to 10 of this annual report.

## DIRECTORS' REMUNERATION

The Directors' fees are subject to shareholders' approval at general meetings. Other emoluments are determined by the Company's board of directors with reference to directors' duties, responsibilities and performance and the results of the Group.

## DIRECTORS' SERVICE CONTRACTS

During the year, no Director had a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

## DIRECTORS' INTERESTS IN CONTRACTS

Details of director's interests in contracts which the Company or any of its subsidiaries entered into during the year are set out in section headed " connected transactions and continuing connected transaction" to this director's report.

## SHARE OPTION SCHEME

At the AGM of the Company held on 27 May 2011, the Shareholders approved the adoption of the 2011 Scheme which has become effective since 30 May 2011. This is the date on which the Listing Committee of the Stock Exchange granted approval for the listing of, and permission to deal in, any Shares on the Stock Exchange, which may fall to be allotted and issued by the Company pursuant to the exercise of the share options in accordance with the terms and conditions of the 2011 Scheme. Unless otherwise cancelled or amended, the 2011 Scheme will be valid for a period of 10 years from the date of its adoption.

The purpose of the 2011 Scheme is to enable the Company to grant share options to the eligible participants, as incentives and/or rewards for their contribution to the Group and/or any Invested Entity or the holding company of the Company (if applicable). Eligible participants of the 2011 Scheme include:

(a) any director or proposed director (whether executive or non-executive and whether independent or not), any executive, officer, employee or any person to whom any offer of employment has been made, executive or officer (whether full-time or part-time, on an employment or contractual or honorary basis or otherwise and whether paid or unpaid) of any member of the Group, any Invested Entity or the holding company of the Company (if applicable);

(b) any supplier or provider of goods and/or services, professional, consultant, agent, contractor, adviser, customer, partner, business associate or shareholder of any member of the Group, any Invested Entity or the holding company of the Company (if applicable), or any holder of any securities issued or proposed to be issued by any member of the Group, any Invested Entity or the holding company of the Company (if applicable), who, in the sole discretion of the Board, will contribute or has contributed to the Group, the Invested Entity or the holding company of the Company (if applicable); and

(c) any person whom the Board in its sole discretion considers, will contribute or has contributed to any members of the Group, the Invested Entity or the holding company of the Company (if applicable) (as the case may be).

## SHARE OPTION SCHEME *(continued)*

Pursuant to the 2011 Scheme, the maximum number of Shares which may be issued upon exercise of all share options to be granted under the 2011 Scheme and any other share option scheme(s) of the Company must not exceed 10% of the total number of Shares in issue as at the date of adoption of the 2011 Scheme. Shares which would have been issuable pursuant to the share options which have lapsed or cancelled in accordance with the terms of such share option scheme(s) will not be counted for the purpose of the 10% limit. Notwithstanding the foregoing, Shares which may be issued upon exercise of all outstanding share options granted and yet to be exercised under the 2011 Scheme and any other share option scheme(s) of the Company at any time shall not exceed 30% of the total number of the Shares in issue from time to time. No share option shall be granted under any scheme(s) of the Company or any of its subsidiaries if this will result in the 30% limit being exceeded. As at the date of this annual report, the total number of share options available for grant under the 2011 Scheme is 60,614,490, which represents 6.92% of the total issued share capital of the Company as at the date of this annual report.

The total number of Shares issued and which may fall to be issued upon exercise of the share options granted under the 2011 Scheme and any other share option scheme(s) of the Company (including exercised, cancelled and outstanding share options) to each eligible participant in any 12-month period up to the date of grant shall not exceed 1% of the total number of Shares in issue as at the date of grant. Any further grant of the share options in excess of this 1% limit shall be subject to the issue of a circular by the Company and the approval of the Shareholders at a general meeting with such eligible participant and his/her associates abstaining from voting and/or other requirements prescribed under the Listing Rules from time to time.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their respective associates, are subject to the approval in advance by the INEDs of the Company, excluding the INED(s) of the Company who is/are the grantee(s) of the share options. In addition, any share option granted to a substantial shareholder or an INED of the Company, or to any of their respective associates, in excess of 0.1% of the total number of Shares in issue as at the date of grant or with an aggregate value (based on the closing price of the Shares as at the date of grant) in excess of HK$5 million, within any 12-month period, is subject to the issue of a circular by the Company and the approval of the Shareholders in advance at a general meeting.

The offer of a grant of the share options may be accepted within 28 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the Board, and commences on a specified date and ends on a date which is not later than 10 years from the date of grant of the share options. There is no specific requirement under the 2011 Scheme that a share option must be held for any minimum period before it can be exercised, but the terms of the 2011 Scheme provide that the Board has the discretion to impose a minimum period at the time of grant of any particular share option.

The exercise price of the share options is determinable by the Board, but may not be less than the highest of:

(i) the closing price of the Shares as stated in the daily quotation sheet of the Stock Exchange on the date of grant, which must be a trading day (and for this purpose shall be taken to be the date of the Board meeting at which the Board proposes to grant the share options);

(ii) the average closing price of the Shares as stated in the daily quotation sheets of the Stock Exchange for the five trading days immediately preceding the date of grant; and

(iii) the nominal value of a Share.

The Company's share options do not confer rights on the holders to dividends or to vote at the general meetings of the Company.

As at 31 December 2017, there was no share option outstanding under the 2011 Scheme. No share option was granted, exercised, cancelled or has lapsed under the 2011 Scheme during the year ended 31 December 2017.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES AND UNDERLYING SHARES

As at 31 December 2017, the Directors and chief executive of the Company and/or any of their respective associates had the following interests and short positions in the shares, underlying shares and debentures of the Company and/or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or the Model Code adopted by the Company:

**Interests and short positions in the Shares and the underlying Shares as at 31 December 2017**

*(i)* *Long positions in the Shares:*

| Name of Directors | Number of the Shares interested and nature of interest: Personal | Corporate | Total | Approximate percentage of the total issued share capital of the Company (%) |
|---|---|---|---|---|
| Mr. Mak (Note) | 13,699,652 | 446,025,079 | 459,724,731 | 52.52 |
| Tam Ngai Hung, Terry | 1,148,000 | – | 1,148,000 | 0.13 |

Note: Of the shareholding in which Mr. Mak was interested, an aggregate of 446,025,079 Shares were held by Capital Force, New Capital and Capital Winner, all of which are private corporations wholly-owned by Mr. Mak beneficially. Mr. Mak is deemed to be interested in 446,025,079 Shares under the SFO as he controls the exercise of all the voting power at general meetings of Capital Force, New Capital and Capital Winner.

*(ii)* *Long positions in the underlying Shares of the 2024 Convertible Bonds issued by the Company:*

| Name of Director | Number of the underlying Shares interested and nature of interest: Personal | Corporate | Total | Approximate percentage of the total issued share capital of the Company (%) |
|---|---|---|---|---|
| Mr. Mak (Note) | – | 320,769,230 | 320,769,230 | 36.64 |

Note: The interest disclosed represented 320,769,230 underlying Shares at the existing conversion price of HK$0.78 per conversion share (subject to adjustments pursuant to the terms and conditions of the convertible bonds) in respect of the 2024 Convertible Bonds issued by the Company to Capital Force and New Capital pursuant to the terms and conditions of the Sale and Purchase Agreement. Mr. Mak is deemed to be interested in such underlying Shares under the SFO as he controls the exercise of all the voting power at general meetings of Capital Force and New Capital.

## DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES AND UNDERLYING SHARES *(continued)*

**Interests and short positions in the Shares and the underlying Shares as at 31 December 2017** *(continued)*

Save as disclosed above, as at 31 December 2017, none of the Directors and chief executive of the Company and/or any of their respective associates had any interest and short position in the shares, underlying shares and debentures of the Company and/or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to Part XV of the SFO or the Model Code adopted by the Company.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed under the section headed "Directors' and Chief Executive's Interests in Shares and underlying Shares" above, at no time during the year was the Company, or any of its subsidiaries or associated corporations, a party to any arrangement to enable the Directors and chief executive of the Company (including their respective spouse and children under 18 years of age) to acquire benefits by means of the acquisition of the shares or underlying shares in, or debentures of, the Company or any of its associated corporations.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 31 December 2017, the following persons (not being the Directors or chief executive of the Company) had interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO:

**Interests and short positions in the Shares and the underlying Shares as at 31 December 2017**

*(i)* *Long positions in the Shares:*

| Name of the Shareholders | Number of the Shares held | Approximate percentage of the total issued share capital of the Company (%) |
|---|---|---|
| Capital Force (Note 1) | 96,868,792 | 11.07 |
| New Capital (Note 1) | 171,357,615 | 19.58 |
| Capital Winner (Note 1) | 177,798,672 | 20.31 |
| Top Pride Limited (Note 2) | 45,454,545 | 5.19 |
| Lee Hung Shing (Notes 2 & 3) | 59,494,545 | 6.80 |

**SUBSTANTIAL SHAREHOLDERS' INTERESTS** *(continued)*

**Interests and short positions in the Shares and the underlying Shares as at 31 December 2017** *(continued)*

*(i) Long positions in the Shares: (continued)*

Notes:

1. Capital Force, New Capital and Capital Winner are private corporations, the shares in which are wholly-owned by Mr. Mak beneficially, whose interest in such Shares has also been disclosed under the section headed "Directors' and Chief Executive's Interests in Shares and underlying Shares" above.

2. The interest disclosed represented 45,454,545 Shares held directly by Top Pride Limited, the entire shareholding of which is owned by Mr. Lee Hung Shing.

3. The interest disclosed represented 14,040,000 Shares held directly by Mr. Lee Hung Shing and 45,454,545 Shares held through his controlling company stated in Note 2 above.

*(ii) Long positions in the underlying Shares of the convertible bonds issued by the Company:*

(a) 2024 Convertible Bonds

| Name of the Shareholders | Number of the underlying Shares held | Approximate percentage of the total issued share capital of the Company (%) |
|---|---|---|
| Capital Force (Note) | 230,769,230 | 26.36 |
| New Capital (Note) | 90,000,000 | 10.28 |

Note: Capital Force and New Capital are private corporations, the shares in which are wholly-owned by Mr. Mak beneficially, whose interest in such underlying Shares has also been disclosed under the section headed "Directors' and Chief Executive's Interests in Shares and underlying Shares" above.

(b) 2018 Convertible Bonds

| Name of the Shareholders | Number of the underlying Shares held | Approximate percentage of the total issued share capital of the Company (%) |
|---|---|---|
| Top Pride Limited (Note) | 45,454,545 | 5.19 |
| Lee Hung Shing (Note) | 45,454,545 | 5.19 |

Note: The interest disclosed represented 45,454,545 underlying Shares at the lowest conversion price of HK$1.1 per conversion share (subject to adjustments pursuant to the terms and conditions of the convertible bonds) in respect of the 2018 Convertible Bonds issued by the Company to Top Pride Limited pursuant to the terms and conditions of the Subscription Agreement. Mr. Lee Hung Shing is deemed to be interested in such underlying Shares under the SFO as he controls the exercise of all the voting power at general meeting of Top Pride Limited.

## SUBSTANTIAL SHAREHOLDERS' INTERESTS *(continued)*

### Interests and short positions in the Shares and the underlying Shares as at 31 December 2017 *(continued)*

Save for Mr. Mak who is a director and the beneficial owner of all the issued share capital of Capital Force, New Capital and Capital Winner, no other Director is a director or employee of the above substantial shareholders which has an interest or short position in the Shares and underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO.

Save as disclosed above, the Directors and chief executive of the Company are not aware that there is any party who, as at 31 December 2017, had an interest or short position in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO.

## CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTION

During the two years ended 31 December 2017 and 2016, the Group conducted the following transactions with Mr. Mak, which constituted connected transactions and continuing connected transactions for the Company under the Listing Rules:

| | Year ended 31 December | |
|---|---|---|
| HK$ million | **2017** | 2016 |
| *Connected transactions:* | | |
| Acquisition of the property holding companies and issue of the 2024 Convertible Bonds (note 1) | **–** | 250 |
| Acquisition of shareholder's loan (note 1) | **–** | 26 |
| *Continuing connected transaction:* | | |
| Rental income on investment properties (note 2) | **6** | 5 |

Note 1: On 27 January 2016, the Company entered into the Sale and Purchase Agreement with Mr. Mak to acquire all the issued shares of Capital Top and Next Capital (collectively as the "**Property Groups**") from Mr. Mak and the shareholder's loans due to Mr. Mak for the share consideration of approximately HK$250 million and the cash consideration of approximately HK$26 million, respectively. The Property Groups hold the properties at House 38 and House 39, No. 56 Repulse Bay Road. The share consideration was satisfied by the Company by the issue of the 2024 Convertible Bonds with an aggregate principal amount of HK$250,200,000 of which principal amount of HK$180,000,000 and HK$70,200,000 was issued to Capital Force and New Capital, respectively. The cash consideration was paid as consideration for the assignment of the shareholder's loan and was satisfied by cash. The 2024 Convertible Bonds have a term of eight years from the date of issue and carry interest at 5% per annum, payable monthly. The transactions, which constituted a major and connected transaction for the Company under the Listing Rules were approved by the independent Shareholders and were completed on 30 March 2016.

Note 2: On 30 March 2016, two indirect wholly-owned subsidiaries of the Company entered into two tenancy agreements with Mr. Mak to lease the properties at House 38 and House 39, No. 56 Repulse Bay Road to Mr. Mak for a rental period from 30 March 2016 to 31 December 2017 at a monthly rental (inclusive of management fee and government rent and rates) of HK$270,000 and HK$260,000, respectively. The rental was determined based on market rental. The tenancy agreements were renewed on 6 December 2017 for another term of three years from 1 January 2018 to 31 December 2020, with the same rental and similar terms and conditions as the previous tenancy agreements. The rental transactions contemplated under the aforesaid tenancy agreements constitute non-exempt continuing connected transactions for the Company under the Listing Rules. During the year ended 31 December 2017, rental income of approximately HK$6 million (2016: HK$5 million) in aggregate was charged to Mr. Mak (the "**Rental Transactions**").

**CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTION** *(continued)*

In relation to the Rental Transactions which constitute continuing connected transaction for the Company, the INEDs have reviewed and confirmed that:

(a) the aggregate value of the rental income of the Rental Transactions for the year ended 31 December 2017 as indicated in note 2 above did not exceed the cap amount of HK$7.0 million;

(b) the Rental Transactions for the year ended 31 December 2017 were entered into in the ordinary and usual course of businesses of the Group;

(c) the Rental Transactions were conducted on normal commercial terms or better; and

(d) the Rental Transactions were conducted in accordance with the terms of the agreements governing such transactions, which are fair and reasonable and in the interests of the shareholders of the Company as a whole.

Ernst & Young, the Company's auditors, were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 Assurance Engagements Other Than Audits or Reviews of Historical Financial Information and with reference to Practice Note 740 Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules issued by the Hong Kong Institute of Certified Public Accountants. Ernst & Young have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

**COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE**

In the opinion of the Directors, the Company has complied with all the Code Provisions under CG Code throughout the year from 1 January 2017 to 31 December 2017, except for the minor deviations from Code Provisions A.2.1 and A.4.2 of the CG Code. Detailed information of such deviations and their respective considered reasons as well as other information on the corporate governance practices of the Company are set out in the section headed "Corporate Governance Report" in this annual report.

**DISCLOSURE ON CHANGE OF INFORMATION OF DIRECTOR PURSUANT TO RULE 13.51B(1) OF THE LISTING RULES**

Mr. Tam Ngai Hung, Terry resigned as the company secretary of CCT Land on 9 February 2017 and was appointed as the company secretary of CCT Land on 5 March 2018.

**CHANGE IN DIRECTOR**

| Name of Director | Detail of Change |
|---|---|
| William Donald Putt | Retired from the position of the Executive Director on 24 May 2017 |

## PERMITTED INDEMNITY

The Company's bye-laws provide that each Director or other officer of the Company shall be indemnified and secured harmless out of the assets of the Company from and against all actions, costs, charges, losses, damages and expenses which he or she may incur or sustain by reason of any act done, concurred in or omitted in or about the execution of his or her duty in office. In addition, the Company has maintained appropriate directors and officers liability insurance in respect of relevant legal actions against the Directors.

## MANAGEMENT CONTRACTS

Save for employment contracts, no other contracts, relating to the management and/or administration of the whole or any substantial part of the business of the Company were entered into or subsisted during the year.

## SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained a sufficient public float of not less than 25% of the total issued share capital of the Company as required under the Listing Rules throughout the financial year under review and up to the date of this annual report.

## EVENT AFTER THE REPORTING PERIOD

Details of the significant event after the reporting period of the Group are set out in note 51 to the financial statements of this annual report.

## AUDITORS

The financial statements for the year ended 31 December 2017 have been audited by Ernst & Young, who will retire at the forthcoming AGM of the Company. A resolution for their re-appointment as auditors of the Company will be proposed at the forthcoming AGM of the Company.

ON BEHALF OF THE BOARD

**Mak Shiu Tong, Clement**
*Chairman*

Hong Kong
28 March 2018

# Independent auditor's report

EY安永

**To the shareholders of CCT Fortis Holdings Limited**
*(Incorporated in the Cayman Islands and continued in Bermuda with limited liability)*

## OPINION

We have audited the consolidated financial statements of CCT Fortis Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 55 to 156, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

## BASIS OF OPINION

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

## KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional 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. For each matter below, our description of how our audit addressed the matter is provided in that context.

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

| Key audit matter | How our audit addressed the key audit matter |
| --- | --- |
| *Recoverability of trade receivables* | |
| At 31 December 2017, the Group had trade receivables with a carrying amount of HK$1,661 million. These trade receivables represented approximately 32% of the total assets of the Group. Significant judgements and estimations are applied by management in determining whether the receivables are recoverable and if a provision for impairment is required. Factors taken into account included the terms of the receivables, including due dates, the nature of the customers, evidence of disputes, past payment records and settlements received subsequent to the reporting date.<br><br>Disclosures of trade receivables are included in notes 3 and 25 to the consolidated financial statements. | Our audit procedures included evaluating management's processes and controls relating to the monitoring of trade receivables and testing the aging analysis of the trade receivables. For significant balances, we checked to the underlying sales documents, examined subsequent settlements of the trade receivables and obtained confirmations. We evaluated the fair value of security over certain trade receivables balances. We then assessed whether the provision for impairment was adequate. |

**KEY AUDIT MATTERS** *(continued)*

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| *Asset impairment review on properties classified as property, plant and equipment and stock of properties held for sale* | |
| At 31 December 2017, the Group held properties classified as property, plant and equipment with a carrying amount of HK$750 million, stated at cost less accumulated depreciation and any impairment losses; and stock of properties held for sale with a carrying amount of HK$274 million, stated at the lower of cost and net realisable value. These properties represented approximately 20% of the total assets of the Group. Significant judgements and estimations are involved in determining whether there are impairment indicators for the properties. To assist with their determination of the recoverable amount for the properties, and whether an impairment provision was required, management engaged an external valuer to determine their fair value.<br><br>Disclosures of the impairment of properties classified as property, plant and equipment, and stock of properties held for sale are included in notes 3, 13 and 22, respectively, to the consolidated financial statements. | As part of our audit procedures, we considered the objectivity, independence and competency of the external valuer. In addition, we evaluated the assumptions, methodologies and parameters adopted in the valuation, and examined the inputs used, including the unit rate per square feet and the gross floor area.<br><br>We also assessed the disclosures, particularly those relating to the assumptions adopted. |
| *Valuation review of investment properties* | |
| At 31 December 2017, the Group held investment properties with a carrying amount of HK$1,456 million stated at fair value. The investment properties represented approximately 28% of the total assets of the Group. Significant judgements and estimations are involved in determining the fair value of the investment properties. To assist with their determination of the fair value, management engaged an external valuer.<br><br>Disclosures of investment properties are included in notes 3 and 14 to the consolidated financial statements. | As part of our audit procedures, we considered the objectivity, independence and competency of the external valuer. In addition, we evaluated the assumptions, methodologies and parameters adopted in the valuation, and examined the inputs used, including the unit rate per square feet and the gross floor area. We then assessed the disclosures, particularly those relating to the assumptions adopted. |

## KEY AUDIT MATTERS *(continued)*

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| *Valuation and impairment review of classic cars held for investment purposes and for sale* | |
| At 31 December 2017, the Group held classic cars designated for investment purposes with a carrying amount of HK$120 million stated at fair value, and classic cars held for sale with a carrying amount of HK$176 million stated at the lower of cost and net realisable value. The classic cars held by the Group represented approximately 6% of the total assets of the Group. Significant management judgements and estimates are involved in determining the fair value of the classic cars held for investment purposes and the net realisable value of the classic cars held for sale. To assist in the determination of the fair value of the classic cars held for investment purposes and the net realisable value of the classic cars held for sale, management engaged an external valuer.<br><br>Disclosures of the classic cars held for investment purposes and the classic cars held for sale are included in notes 3, 18 and 23, to the financial statements. | As part of our audit procedures, we considered the objectivity, independence and competency of the external valuer. We assessed the valuation approach, key assumptions and the source of comparable information adopted in the valuation by the valuer. We also evaluated the inputs for the valuation including the recent acquisition prices and subsequent sales prices of the classic cars. |

## OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

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

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

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

## RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, in accordance with section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

As part of an audit in accordance with HKSAs, we exercise professional 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 management.

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

- 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 Chow Chi Chung.

**Ernst & Young**
*Certified Public Accountants*
22/F, CITIC Tower,
1 Tim Mei Avenue,
Central, Hong Kong

28 March 2018

# consolidated statement of profit or loss

Year ended 31 December 2017

| HK$ million | Notes | 2017 | 2016 |
|---|---|---|---|
| **REVENUE** | 5 | **585** | 895 |
| Cost of sales | | **(513)** | (295) |
| Gross profit | | **72** | 600 |
| Other income and gains | 5 | **413** | 81 |
| Selling and distribution costs | | **(9)** | (3) |
| Administrative expenses | | **(216)** | (193) |
| Other expenses | | **(30)** | (93) |
| Finance costs | 7 | **(55)** | (40) |
| Share of losses of an associate | 17 | **(2)** | – |
| **PROFIT BEFORE TAX** | 6 | **173** | 352 |
| Income tax credit/(expense) | 10 | **6** | (39) |
| **PROFIT FOR THE YEAR** | | **179** | 313 |
| Attributable to: | | | |
| Owners of the parent | | **181** | 303 |
| Non-controlling interests | | **(2)** | 10 |
| | | **179** | 313 |
| **EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT** | 12 | | |
| Basic | | **HK$0.21** | HK$0.36 |
| Diluted | | **HK$0.16** | HK$0.35 |

# consolidated statement of comprehensive income

Year ended 31 December 2017

| HK$ million | 2017 | 2016 |
|---|---|---|
| **PROFIT FOR THE YEAR** | **179** | 313 |
| Other comprehensive income to be reclassified to profit or loss in subsequent periods: | | |
| Available-for-sale investments: | | |
| Changes in fair value | **33** | (5) |
| Reclassification adjustments for losses included in the consolidated statement of profit or loss — impairment losses | **–** | 5 |
| Net other comprehensive income to be reclassified to profit or loss in subsequent periods | **33** | – |
| **TOTAL COMPREHENSIVE INCOME FOR THE YEAR** | **212** | 313 |
| Attributable to: | | |
| Owners of the parent | **214** | 303 |
| Non-controlling interests | **(2)** | 10 |
| | **212** | 313 |

# consolidated statement of financial position

31 December 2017

| HK$ million | Notes | 2017 | 2016 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 13 | **844** | 837 |
| Investment properties | 14 | **1,456** | 1,179 |
| Prepayments for acquisition of property, plant and equipment | | **–** | 9 |
| Goodwill | 15 | **103** | 103 |
| Intangible assets | 16 | **28** | – |
| Interest in an associate | 17 | **10** | 13 |
| Classic cars held for investment | 18 | **120** | 92 |
| Antique watches and clocks held for investment | 19 | **32** | – |
| Available-for-sale investments | 20 | **113** | 96 |
| Deposits and other receivables | 27 | **17** | 11 |
| Total non-current assets | | **2,723** | 2,340 |
| **Current assets** | | | |
| Inventories | 21 | **23** | 10 |
| Stock of properties held for sale | 22 | **274** | 337 |
| Stock of classic cars held for sale | 23 | **176** | 113 |
| Non-current assets held for sale | 24 | **–** | 26 |
| Trade receivables | 25 | **1,661** | 1,812 |
| Investment in films | 26 | **59** | 11 |
| Prepayments, deposits and other receivables | 27 | **140** | 90 |
| Financial assets at fair value through profit or loss | 28 | **3** | 18 |
| Pledged time deposits | 29 | **28** | – |
| Cash and cash equivalents | 29 | **131** | 212 |
| Total current assets | | **2,495** | 2,629 |
| **Total assets** | | **5,218** | 4,969 |

# consolidated statement of financial position (continued)

| HK$ million | Notes | 2017 | 2016 |
|---|---|---|---|
| **EQUITY AND LIABILITIES** | | | |
| **Equity attributable to owners of the parent** | | | |
| Issued capital | 36 | **88** | 88 |
| Reserves | 38 | **3,243** | 3,093 |
| | | **3,331** | 3,181 |
| **Non-controlling interests** | | **19** | 21 |
| Total equity | | **3,350** | 3,202 |
| **Non-current liabilities** | | | |
| Interest-bearing bank and other borrowings | 32 | **896** | 854 |
| Convertible bonds | 33 | **232** | 280 |
| Deferred tax liabilities | 35 | **38** | 42 |
| Total non-current liabilities | | **1,166** | 1,176 |
| **Current liabilities** | | | |
| Trade payables | 30 | **45** | 29 |
| Tax payable | | **56** | 79 |
| Other payables and accruals | 31 | **95** | 100 |
| Interest-bearing bank and other borrowings | 32 | **456** | 383 |
| Convertible bonds | 33 | **50** | – |
| Total current liabilities | | **702** | 591 |
| **Total liabilities** | | **1,868** | 1,767 |
| **Total equity and liabilities** | | **5,218** | 4,969 |
| **Net current assets** | | **1,793** | 2,038 |
| **Total assets less current liabilities** | | **4,516** | 4,378 |

**Mak Shiu Tong, Clement**
*Chairman*

**Tam Ngai Hung, Terry**
*Director*

# consolidated statement of changes in equity

Year ended 31 December 2017

| HK$ million | Notes | Issued capital | Share premium account | Capital reserve (note 38) | Distributable reserve | Investment revaluation reserve | Asset revaluation reserve | Equity component of convertible bonds (note 33) | Exchange fluctuation reserve | Capital redemption reserve | Retained profits | Total | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Attributable to owners of the parent | | | | | | | | | | | | |
| At 1 January 2016 | | 83 | 181 | 741 | 1,024 | 2 | 36 | – | 29 | 24 | 746 | 2,866 | – | 2,866 |
| Profit for the year | | – | – | – | – | – | – | – | – | – | 303 | 303 | 10 | 313 |
| Other comprehensive income for the year: | | | | | | | | | | | | | | |
| Changes in fair value of available-for-sale investments | | – | – | – | – | – | (5) | – | – | – | – | (5) | – | (5) |
| Reclassification adjustments for losses included in the consolidated statement of profit or loss | | – | – | – | – | – | 5 | – | – | – | – | 5 | – | 5 |
| Total comprehensive income for the year | | – | – | – | – | – | – | – | – | – | 303 | 303 | 10 | 313 |
| Acquisition of subsidiaries | 40 | – | – | – | – | – | – | – | – | – | – | – | 11 | 11 |
| Issuance of convertible bonds | | – | – | – | – | – | – | 22 | – | – | – | 22 | – | 22 |
| Conversion of convertible bonds | | 5 | 45 | – | – | – | – | – | – | – | – | 50 | – | 50 |
| 2015 final dividend | 11 | – | – | – | (29) | – | – | – | – | – | – | (29) | – | (29) |
| 2016 interim dividend | 11 | – | – | – | (31) | – | – | – | – | – | – | (31) | – | (31) |
| At 31 December 2016 and at 1 January 2017 | | **88** | **226** | **741** | **964** | **2** | **36** | **22** | **29** | **24** | **1,049** | **3,181** | **21** | **3,202** |
| Profit for the year | | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **181** | **181** | **(2)** | **179** |
| Other comprehensive income for the year: | | | | | | | | | | | | | | |
| Changes in fair value of available-for-sale investments | | **–** | **–** | **–** | **–** | **–** | **33** | **–** | **–** | **–** | **–** | **33** | **–** | **33** |
| Total comprehensive income for the year | | **–** | **–** | **–** | **–** | **–** | **33** | **–** | **–** | **–** | **181** | **214** | **(2)** | **212** |
| Shares repurchased | 36 | **–** | **(2)** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **–** | **(2)** | **–** | **(2)** |
| 2016 final dividend | 11 | **–** | **–** | **–** | **(31)** | **–** | **–** | **–** | **–** | **–** | **–** | **(31)** | **–** | **(31)** |
| 2017 interim dividend | 11 | **–** | **–** | **–** | **(31)** | **–** | **–** | **–** | **–** | **–** | **–** | **(31)** | **–** | **(31)** |
| At 31 December 2017 | | **88** | **224*** | **741*** | **902*** | **2*** | **69*** | **22*** | **29*** | **24*** | **1,230*** | **3,331** | **19** | **3,350** |

* These reserve accounts comprise the consolidated reserves of HK$3,243 million (2016: HK$3,093 million) in the consolidated statement of financial position.

# consolidated statement of cash flows

Year ended 31 December 2017

| HK$ million | Notes | 2017 | 2016 |
|---|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | | |
| Profit before tax | | **173** | 352 |
| Adjustments for: | | | |
| Finance costs | 7 | **55** | 40 |
| Share of losses of an associate | | **2** | – |
| Interest income | 5 | **–** | (2) |
| Depreciation | 6 | **42** | 28 |
| Amortisation of intangible assets | 6 | **3** | – |
| Impairment of trade receivables | | **1** | 2 |
| Gain on disposal of an investment property | 5 | **(32)** | – |
| Fair value (gain)/loss on investment properties, net | 6 | **(302)** | 19 |
| Fair value gain on classic cars held for investment | 5 | **(12)** | (14) |
| Fair value gain on antique watches | | **(1)** | – |
| Impairment loss on properties held for sale to net realisable value | 6 | **–** | 24 |
| Reversal of impairment loss on properties held for sale to net realisable value | 6 | **(19)** | – |
| Impairment loss on an available-for-sale investment | 6 | **25** | 5 |
| Gain on settlement of promissory notes | 5 | **–** | (46) |
| | | **(65)** | 408 |
| (Increase)/decrease in inventories | | **(13)** | 3 |
| (Increase)/decrease in stock of classic cars held for trading | | **(66)** | 13 |
| Decrease/(increase) in trade receivables | | **150** | (495) |
| (Increase)/decrease in prepayments, deposits and other receivables | | **(53)** | 188 |
| Increase/(decrease) in trade payables, other payables and accruals | | **11** | (13) |
| Decrease/(increase) in financial assets at fair value through profit or loss | | **15** | (18) |
| Cash flows (used in)/from operations | | **(21)** | 86 |
| Interest received | | **–** | 2 |
| Interest paid | | **(53)** | (40) |
| Hong Kong profits tax paid | | **(21)** | – |
| Net cash flows (used in)/from operating activities | | **(95)** | 48 |

| HK$ million | Notes | 2017 | 2016 |
|---|---|---|---|
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | | |
| Purchases of items of property, plant and equipment | | **(41)** | (148) |
| Purchases of classic cars held for investment | | **(12)** | (47) |
| Proceeds from disposal of items of property, plant and equipment | | **1** | 14 |
| Proceeds from sale of classic cars held for investment | | **26** | – |
| Proceeds from disposal of an investment property | | **145** | – |
| Additions to antique watches | | **(31)** | – |
| Additions to investment properties | | **(6)** | (4) |
| Acquisition of subsidiaries and a business | 40, 41 | **–** | (130) |
| Addition to an intangible asset | | **(31)** | – |
| Increase in an available-for-sale investment | | **(9)** | (84) |
| Increase in investment in films | | **(48)** | – |
| Decrease in held-to-maturity debt securities | | **–** | 48 |
| (Increase)/decrease in pledged time deposits | | **(28)** | 47 |
| Increase in prepayments, deposits and other receivables | | **(3)** | (10) |
| Net cash flows used in investing activities | | **(37)** | (314) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | | |
| New bank loans | | **444** | 434 |
| New trust receipt loans, net | | **–** | 5 |
| Repayment of bank loans and trust receipt loans | | **(328)** | (354) |
| Issuance of convertible bonds | 33(b) | **–** | 100 |
| Shares repurchased | | **(2)** | – |
| Capital element of finance lease rental payments | | **(1)** | (2) |
| Dividends paid | | **(62)** | (60) |
| Net cash flows from financing activities | | **51** | 123 |
| **NET DECREASE IN CASH AND CASH EQUIVALENTS** | | **(81)** | (143) |
| Cash and cash equivalents at beginning of year | | **212** | 355 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | | **131** | 212 |
| **ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS** | | | |
| Cash and bank balances | 29 | **131** | 212 |

## 1. CORPORATE AND GROUP INFORMATION

The Company was incorporated in the Cayman Islands with limited liability and continued as an exempted company under the laws of Bermuda after the change of domicile from the Cayman Islands to Bermuda effective on 9 December 2005.

During the year, the Company and its subsidiaries (collectively referred to as the "Group") were involved in the following principal activities:

- development and trading of properties in Hong Kong;
- investment and holding of properties;
- trading in securities and holding of securities and treasury products;
- trading and sale of classic cars and car logistic business;
- trading and sale of Ferrari vehicles and provision of after-sales service for Ferrari automotive;
- acquisition of classic cars for long-term investment purpose;
- production, investment and distribution of films worldwide;
- leasing of audio and lighting equipment and services for production of concert and entertainment events;
- stage engineering for production of concert and entertainment events;
- trading of child products and manufacture and sale of plastic components;
- development and operations of mobile game business; and
- services and start-up business including classic car service centre, magazine publication and investment in antique watches and clocks.

## 1. CORPORATE AND GROUP INFORMATION *(continued)*

**Information about subsidiaries**

Particulars of the Company's principal subsidiaries are as follows:

| Name | Place of incorporation/ registration and business | Issued ordinary/ registered capital | Percentage of equity attributable to the Company Direct | Indirect | Principal activities |
|---|---|---|---|---|---|
| AHM Engineering Company Limited ("AHM") # | Hong Kong | HK$10,000 Ordinary | – | 70 | Audio and lighting operation |
| Billion Spread Limited | Hong Kong | HK$1 Ordinary | – | 100 | Property investment and holding |
| Blackbird Classic Automobiles Limited # | Hong Kong | HK$1,000 Ordinary | – | 100 | Investment in classic cars |
| Blackbird Classics Limited # | Hong Kong | HK$1,000 Ordinary | – | 100 | Trading of classic cars |
| Blackbird Concessionaires Limited # | Hong Kong | HK$1 Ordinary | – | 100 | Distribution of Ferrari vehicles and provision of after-sales services as official dealer of Ferrari in Hong Kong |
| Blackbird Heritage Motorworks Limited # | Hong Kong | HK$1 Ordinary | – | 100 | Classic car restoration and maintenance service |
| Blackbird Watch Manual Company Limited | Hong Kong | HK$1 Ordinary | – | 100 | Investment in antique watches and clocks |
| Blackbird Works Supply Company Limited | Hong Kong | HK$1,000 Ordinary | – | 100 | Car logistic service |
| Charter Base Development Limited # | Hong Kong | HK$1 Ordinary | – | 100 | Property investment and holding |
| CCT Telecom Securities Limited # ("CCT Securities") | Hong Kong | HK$1 Ordinary | – | 100 | Securities business |
| CCT Plastics Limited # | Hong Kong | HK$1 Ordinary | – | 100 | Trading of components and products |
| Cyber Profit (HK) Limited # ("Cyber Profit") | Hong Kong | HK$2 Ordinary | – | 100 | Property investment and holding |

1. **CORPORATE AND GROUP INFORMATION** *(continued)*

| Name | Place of incorporation/ registration and business | Issued ordinary/ registered capital | Percentage of equity attributable to the Company Direct | Indirect | Principal activities |
|---|---|---|---|---|---|
| Dragon Glory Limited | Hong Kong | HK$1 Ordinary | – | 100 | Property investment and holding |
| Fortis Films (China) Limited | Hong Kong | HK$1 Ordinary | – | 100 | Films investment and distribution |
| Goldbay Capital Limited # | Hong Kong | HK$1 Ordinary | – | 100 | Property investment |
| Goldbay Development Limited # | Hong Kong | HK$1 Ordinary | – | 100 | Property investment |
| Goldbay Investments Limited # | Hong Kong | HK$2 Ordinary | – | 100 | Property investment and holding |
| Goldbay Property (China) Limited # | Hong Kong | HK$1 Ordinary | – | 100 | Property development and trading |
| Goldbay Property (HK) Limited # | Hong Kong | HK$1 Ordinary | – | 100 | Property investment |
| Goldbay Strategy Limited # | Hong Kong | HK$1 Ordinary | – | 100 | Property investment |
| Hip Hing Loong Stage Engineering Company Limited ("HHL") #△ | Hong Kong | HK$1,000 Ordinary | – | 51 | Stage engineering operation |
| Huiyang CCT Plastic Products Co., Ltd. # | PRC/ Mainland China | HK$48,600,000 Registered^ | – | 100 | Manufacture of casings and parts |
| JHM Engineering Company Limited # | Macau | MOP500,000 Registered | – | 64 | Audio and lighting operation |
| Million Joy (Asia) Limited | Hong Kong | HK$1 Ordinary | – | 80 | Development and operations of mobile games |
| Ocean Investment Limited # | Hong Kong | HK$1 Ordinary | – | 100 | Property development and trading |
| Play Infinite Limited | Hong Kong | HK$1 Ordinary | – | 80 | Development and operations of mobile games |

## 1. CORPORATE AND GROUP INFORMATION *(continued)*

| Name | Place of incorporation/ registration and business | Issued ordinary/ registered capital | Percentage of equity attributable to the Company Direct | Indirect | Principal activities |
|---|---|---|---|---|---|
| Rich Full International Industries Limited # | Hong Kong | HK$1 Ordinary | – | 100 | Property holding |
| Topcon Investments Limited # | Hong Kong | HK$1 Ordinary | – | 100 | Property investment |
| Victory Way Investments Limited # | Hong Kong | HK$1 Ordinary | – | 100 | Property investment |
| Wiltec Industrial Limited | Hong Kong | HK$2,002 Ordinary | – | 100 | Sale and trading of baby products |
| World Leader Properties Limited # | Hong Kong | HK$1 Ordinary | – | 100 | Property development and trading |

^ Registered as a wholly-foreign-owned enterprise in the People's Republic of China (the "PRC")

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

△ The name of the company was changed from Hip Hing Loong Metal Works Limited to Hip Hing Loong Stage Engineering Company Limited in 2017.

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

## 2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for investment properties, classic cars held for investment, antique watches and clocks held for investment, certain available-for-sale investments, financial assets at fair value through profit or loss and certain convertible bonds which have been measured at fair value. These financial statements are presented in Hong Kong dollars ("HK$") and all values are rounded to the nearest million except when otherwise indicated.

## 2.1 BASIS OF PREPARATION *(continued)*

### Basis of consolidation

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

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

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

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

## 2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

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

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

Other than as explained below regarding the impact of amendments to HKAS 7 and amendments to HKAS 12, the adoption of the above revised standards has had no significant financial effect on these financial statements.

The nature and the impact of the amendments are described below:

(a) Amendments to HKAS 7 require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. Disclosure of the changes in liabilities arising from financing activities is provided in note 42(b) to the financial statements.

(b) Amendments to HKAS 12 clarify that an entity, when assessing whether taxable profits will be available against which it can utilise a deductible temporary difference, needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount. The amendments have had no impact on the financial position or performance of the Group as the Group has no deductible temporary differences or assets that are in the scope of the amendments.

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

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

| | |
|---|---|
| Amendments to HKFRS 2 | *Classification and Measurement of Share-based Payment Transactions*[1] |
| Amendments to HKFRS 4 | *Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts*[1] |
| HKFRS 9 | *Financial Instruments*[1] |
| Amendments to HKFRS 9 | *Prepayment Features with Negative Compensation*[2] |
| Amendments to HKFRS 10 and HKAS 28 (2011) | *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4] |
| HKFRS 15 | *Revenue from Contracts with Customers*[1] |
| Amendments to HKFRS 15 | *Clarifications to HKFRS 15 Revenue from Contracts with Customers*[1] |
| HKFRS 16 | *Leases*[2] |
| HKFRS 17 | *Insurance Contracts*[3] |
| Amendments to HKAS 28 | *Long-term Interests in Associates and Joint Ventures*[2] |
| Amendments to HKAS 40 | *Transfers of Investment Property*[1] |
| HK(IFRIC)-Int 22 | *Foreign Currency Transactions and Advance Consideration*[1] |
| HK(IFRIC)-Int 23 | *Uncertainty over Income Tax Treatments*[2] |
| *Annual Improvements 2014–2016 Cycle* | *Amendments to HKFRS 1 and HKAS 28*[1] |
| *Annual Improvements 2015–2017 Cycle* | *Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23*[2] |

1 Effective for annual periods beginning on or after 1 January 2018
2 Effective for annual periods beginning on or after 1 January 2019
3 Effective for annual periods beginning on or after 1 January 2021
4 No mandatory effective date yet determined but available for adoption

Further information about those HKFRSs that are expected to be applicable to the Group is described below. Of those standards, HKFRS 9 and HKFRS 15 will be applicable for the Group's financial year ending 31 December 2018 and are expected to have a significant impact upon adoption. Whilst management has performed a detailed assessment of the estimated impacts of these standards, that assessment is based on the information currently available to the Group, including expectations of the application of transitional provision options and policy choices. The actual impacts upon adoption could be different to those below, depending on additional reasonable and supportable information being made available to the Group at the time of applying the standards and the transitional provisions and policy options finally adopted.

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

The HKICPA issued amendments to HKFRS 2 in August 2016 that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding a certain amount in order to meet an employee's tax obligation associated with the share-based payment; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash-settled to equity-settled. The amendments clarify that the approach used to account for vesting conditions when measuring equity-settled share-based payments also applies to cash-settled share-based payments. The amendments introduce an exception so that a share-based payment transaction with net share settlement features for withholding a certain amount in order to meet the employee's tax obligation is classified in its entirety as an equity-settled share-based payment transaction when certain conditions are met. Furthermore, the amendments clarify that if the terms and conditions of a cash-settled share-based payment transaction are modified, with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as an equity-settled transaction from the date of the modification. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if they elect to adopt for all three amendments and other criteria are met. The Group expects to adopt the amendments from 1 January 2018. The amendments are not expected to have any significant impact on the Group's financial statements.

In September 2014, the HKICPA issued the final version of HKFRS 9, bringing together all phases of the financial instruments project to replace HKAS 39 and all previous versions of HKFRS 9. The standard introduces new requirements for classification and measurement, impairment and hedge accounting. The Group will adopt HKFRS 9 from 1 January 2018. The Group will not restate comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018. During 2017, the Group has performed a detailed assessment of the impact of the adoption of HKFRS 9. The expected impacts relate to the classification and measurement and the impairment requirements and are summarised as follows:

### (a) Classification and measurement

The Group does not expect that the adoption of HKFRS 9 will have a significant impact on the classification and measurement of its financial assets. It expects to continue measuring at fair value all financial assets currently held at fair value. Equity investments currently held as available for sale will be measured at fair value through other comprehensive income as the investments are intended to be held for the foreseeable future and the Group expects to apply the option to present fair value changes in other comprehensive income. Gains and losses recorded in other comprehensive income for the equity investments cannot be recycled to profit or loss when the investments are derecognised.

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

### (b) Impairment

HKFRS 9 requires an impairment on debt instruments recorded at amortised cost or at fair value through other comprehensive income, lease receivables, loan commitments and financial guarantee contracts that are not accounted for at fair value through profit or loss under HKFRS 9, to be recorded based on an expected credit loss model either on a twelve-month basis or a lifetime basis. The Group will apply the simplified approach and record lifetime expected losses that are estimated based on the present values of all cash shortfalls over the remaining life of all of its trade receivables. Furthermore, the Group will apply the general approach and record twelve-month expected credit losses that are estimated based on the possible default events on its other receivables within the next twelve months.

Amendments to HKFRS 10 and HKAS 28 (2011) address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 (2011) in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 (2011) was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

HKFRS 15, issued in July 2014, establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The standard will supersede all current revenue recognition requirements under HKFRSs. Either a full retrospective application or a modified retrospective adoption is required on the initial application of the standard. In June 2016, the HKICPA issued amendments to HKFRS 15 to address the implementation issues on identifying performance obligations, application guidance on principal versus agent and licences of intellectual property, and transition. The amendments are also intended to help ensure a more consistent application when entities adopt HKFRS 15 and decrease the cost and complexity of applying the standard. The Group will adopt HKFRS 15 from 1 January 2018.

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

The expected impacts arising from the adoption of HKFRS 15 on the Group are summarised as follows:

### (a) Sale of classic cars

*Timing of revenue recognition*

Currently, sale of classic cars is recognised when the significant risks and rewards of ownership of the classic cars are transferred to the buyers, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the classic cars, that is when classic cars have been delivered to the buyers pursuant to the sale agreements, and the collectability of related receivables is reasonably assured. Upon the adoption of HKFRS 15, revenue from the sale of classic cars will be recognised at a point in time when control over the classic cars is transferred to the buyers, generally on delivery of the classic cars. The Group expects to recognise the sale of classic cars at the point in time at which the Group delivers the classic cars to the buyers. The Group does not anticipate that the application of HKFRS 15 will have a material impact on the timing of revenue recognised in the respective periods.

### (b) Provision and leasing of audio and lighting equipment

*Timing of revenue recognition*

Currently, the revenue for provision and leasing of audio and lighting equipment is recognised when the services are rendered. Following the adoption of HKFRS 15, the Group has assessed that the services are satisfied over time given the customers simultaneously receive and consume the benefits provided by the Group. As most of the jobs have a short service cycle, the Group does not anticipate that the application of HKFRS 15 will have a material impact on the timing of revenue recognised in the respective periods.

### (c) Sale of plastic components and child products

*Timing of revenue recognition*

Currently, sale of plastic components and child products is recognised when the significant risks and rewards of ownership of the products are transferred to the customers. Upon the adoption of HKFRS 15, the Group expects to recognise the sale of plastic components and child products at the point in time at which the Group delivers the products to the buyers. The Group does not anticipate that the application of HKFRS 15 will have a material impact on the timing of revenue recognised in the respective periods.

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

### (d) Presentation and disclosure

The presentation and disclosure requirements in HKFRS 15 are more detailed than those under the current HKAS 18. The presentation requirements represent a significant change from current practice and will significantly increase the volume of disclosures required in the Group's financial statements. Many of the disclosure requirements in HKFRS 15 are new and the Group has assessed that the impact of some of these disclosure requirements will be significant. In particular, the Group expects that the notes to the financial statements will be expanded because of the disclosure of significant judgements made on determining the transaction prices of those contracts that include variable consideration, how the transaction prices have been allocated to the performance obligations, and the assumptions made to estimate the stand-alone selling price of each performance obligation. In addition, as required by HKFRS 15, the Group will disaggregate revenue recognised from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. It will also disclose information about the relationship between the disclosure of disaggregated revenue and revenue information disclosed for each reportable segment.

HKFRS 16, issued in May 2016, replaces *HKAS 17 Leases, HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease, HK(SIC)-Int 15 Operating Leases — Incentives and HK(SIC)-Int 27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.* The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees — leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach. The Group expects to adopt HKFRS 16 from 1 January 2019. The Group is currently assessing the impact of HKFRS 16 upon adoption and is considering whether it will choose to take advantage of the practical expedients available and which transition approach and reliefs will be adopted. As disclosed in note 45(b) to the financial statements, at 31 December 2017, the Group had future minimum lease payments under non-cancellable operating leases in aggregate of approximately HK$118 million. Upon adoption of HKFRS 16, certain amounts included therein may need to be recognised as new right-of-use assets and lease liabilities. Further analysis, however, will be needed to determine the amount of new rights of use assets and lease liabilities to be recognised, including, but not limited to, any amounts relating to leases of low-value assets and short term leases, other practical expedients and reliefs chosen, and new leases entered into before the date of adoption.

HKFRS 17 is effective for reporting periods beginning on or after 1 January 2021. Early application is permitted, provided the entity also applies HKFRS 9 and HKFRS 15 on or before the date it first applies HKFRS 17. The standard is not expected to have any impact on the Group.

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

Amendments to HKAS 28 issued in January 2018 clarify that the scope exclusion of HKFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies HKFRS 9, rather than HKAS 28, including the impairment requirements under HKFRS 9, in accounting for such long-term interests. HKAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group expects to adopt the amendments on 1 January 2019 and will assess its business model for such long-term interests based on the facts and circumstances that exist on 1 January 2019 using the transitional requirements in the amendments. The Group also intends to apply the relief from restating comparative information for prior periods upon adoption of the amendments.

Amendments to HKAS 40, issued in April 2017, clarify when an entity should transfer property, including property under construction or development, into or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to the changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. An entity should reassess the classification of property held at the date that it first applies the amendments and, if applicable, reclassify property to reflect the conditions that exist at that date. Retrospective application is only permitted if it is possible without the use of hindsight. The Group expects to adopt the amendments prospectively from 1 January 2018. The Group is currently assessing the impact of the standard.

HK(IFRIC)-Int 22, issued in June 2017, provides guidance on how to determine the date of the transaction when applying HKAS 21 to the situation where an entity receives or pays advance consideration in a foreign currency and recognises a non-monetary asset or liability. The interpretation clarifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) is the date on which an entity initially recognises the non-monetary asset (such as a prepayment) or non-monetary liability (such as deferred income) arising from the payment or receipt of the advance consideration. If there are multiple payments or receipts in advance of recognising the related item, the entity must determine the transaction date for each payment or receipt of the advance consideration. Entities may apply the interpretation on a full retrospective basis or on a prospective basis, either from the beginning of the reporting period in which the entity first applies the interpretation or the beginning of the prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation. The Group expects to adopt the interpretation prospectively from 1 January 2018. The interpretation is not expected to have any significant impact on the Group's financial statements.

HK(IFRIC)-Int 23, issued in July 2017, addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Group expects to adopt the interpretation from 1 January 2019. The interpretation is not expected to have any significant impact on the Group's financial statements.

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

*Annual Improvements to HKFRSs 2014–2016 Cycle*, issued in March 2017, sets out amendments to HKFRS 1, HKFRS 12 and HKAS 28. Except for the amendments to HKFRS 12 which have been adopted by the Group for the current year's financial statements, the Group expects to adopt the amendments from 1 January 2018. None of the amendments are expected to have a significant financial impact on the Group. Details of the amendments to HKFRS 1 and HKAS 28 are as follows:

- HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards*: Deletes the short-term exemptions for first-time adopters because the reliefs provided in the exemptions are no longer applicable.

- HKAS 28 *Investments in Associates and Joint Ventures*: Clarifies that an entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. If an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries when applying the equity method. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (i) the investment entity associate or joint venture is initially recognised; (ii) the associate or joint venture becomes an investment entity; and (iii) the investment entity associate or joint venture first becomes a parent. These amendments should be applied retrospectively.

*Annual Improvements to HKFRSs 2015–2017 Cycle*, issued in February 2018, sets out amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23. The Group expects to adopt the amendments from 1 January 2019. None of the amendments are expected to have a significant financial impact on the Group. Details of the amendments are as follows:

- HKFRS 3 *Business Combinations*: Clarifies that, when an entity obtains control of a business that is a joint operation, it must apply the requirements for a business combination achieved in stages and remeasure its entire previously held interest in the joint operation at fair value.

- HKFRS 11 *Joint Arrangements*: Clarifies that when an entity that participates in, but does not have joint control of a joint operation, obtains joint control over that joint operation that is a business, it does not remeasure the interest it previously held in that joint operation.

- HKAS 12 *Income Taxes*: Clarifies that an entity recognises all income tax consequences of dividends in profit or loss, other comprehensive income or equity, depending on where the entity recognised the originating transaction or event that generated the distributable profits giving rise to the dividend.

- HKAS 23 *Borrowing Costs*: Clarifies that an entity treats as part of general borrowings any specific borrowing originally made to develop a qualifying asset, and that is still outstanding, when substantially all of the activities necessary to prepare that asset for its intended use or sales are complete.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Investments in an associate**

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

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

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

**Business combinations and goodwill**

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquires and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation either at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Business combinations and goodwill** *(continued)*

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

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

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

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

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

**Fair value measurement**

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Fair value measurement** *(continued)*

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

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

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

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

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

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

**Impairment of non-financial assets**

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

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Related parties**

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

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

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

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

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a);
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Property, plant and equipment and depreciation**

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

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

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

| | |
|---|---|
| Leasehold land and buildings | 2%–6% |
| Plant and machinery | 10%–20% |
| Tools, moulds and equipment | 10%–33% |
| Furniture and office equipment | 10%–20% |
| Motor vehicles | 15%–30% |

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

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

**Investment properties**

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Investment properties** *(continued)*

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

For a transfer from investment properties to owner-occupied properties or inventories, the deemed cost of a property for subsequent accounting is its fair value at the date of change in use. If a property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under "Property, plant and equipment and depreciation" up to the date of change in use, and any difference at that date between the carrying amount and the fair value of the property is accounted for as a revaluation in accordance with the policy stated under "Property, plant and equipment and depreciation" above. For a transfer from inventories to investment properties, any difference between the fair value of the property at that date and its previous carrying amount is recognised in the statement of profit or loss.

**Classic cars held for investment**

Classic cars held for long-term investment purposes and not traded in the ordinary course of business are initially measured at cost. Subsequent to initial recognition, classic cars held for long-term investment purposes are stated at fair value with gains and losses from the change in fair value recognised in the statement of profit or loss.

**Antique watches and clocks held for investment**

Antique watches and clocks held for long-term investment purposes and not traded in the ordinary course of business are initially measured at cost. Subsequent to initial recognition, antique watches and clocks held for long-term investment purposes are stated at fair value with gains and losses from the change in fair value recognised in the statement of profit or loss.

**Inventories**

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

**Stock of classic cars held for sale**

Stock of classic cars held for sale are stated at the lower of cost and net realisable value.

Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Stock of properties held for sale

Stock of properties held for sale are stated at the lower of cost and net realisable value.

Net realisable value is determined by reference to the sales proceeds from the properties sold in the ordinary course of business, less applicable variable selling expenses, or by management estimates based on the prevailing market conditions.

### Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amounts will be recovered principally through a sales transaction rather than through continuing use. For this to be the case, the asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for the sale of such assets and its sale must be highly probable.

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

### Intangible assets (other than goodwill)

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

### Leases

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Investments and other financial assets

*Initial recognition and measurement*

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables or available-for-sale financial investments, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at fair value through profit or loss.

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

*Subsequent measurement*

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

*Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with positive net changes in fair value presented as other income and gains and negative net changes in fair value presented as finance costs in the statement of profit or loss. These net fair value changes do not include any dividends on these financial assets, which are recognised in accordance with the policy set out for “Revenue recognition” below.

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

Derivatives embedded in host contracts are accounted for as separate derivatives and recorded at fair value if their economic characteristics and risks are not closely related to those of the host contracts and the host contracts are not held for trading or designated as at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognised in the statement of profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Investments and other financial assets** *(continued)*

*Loans and receivables*

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

*Held-to-maturity investments*

Non-derivative financial assets with fixed or determinable payments and fixed maturity are classified as held to maturity when the Group has the positive intention and ability to hold them to maturity. Held-to-maturity investments are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and gains in the statement of profit or loss. The loss arising from impairment is recognised in the statement of profit or loss in other expenses.

*Available-for-sale financial investments*

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in the statement of profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to the statement of profit or loss in other gains or losses. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in the statement of profit or loss as other income in accordance with the policies set out for “Revenue recognition” below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Investments and other financial assets** *(continued)*

*Available-for-sale financial investments (continued)*

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to the statement of profit or loss.

**Derecognition of financial assets**

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

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

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

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Impairment of financial assets**

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

*Financial assets carried at amortised cost*

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

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

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Impairment of financial assets** *(continued)*

*Assets carried at cost*

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

*Available-for-sale financial investments*

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in the statement of profit or loss, is removed from other comprehensive income and recognised in the statement of profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the statement of profit or loss — is removed from other comprehensive income and recognised in the statement of profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through the statement of profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

**Financial liabilities**

*Initial recognition and measurement*

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, or loans and borrowings, as appropriate.

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Financial liabilities** *(continued)*

*Subsequent measurement*

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

*Financial liabilities at fair value through profit or loss*

Financial liabilities at fair value through profit or loss include financial liabilities designated upon initial recognition as at fair value through profit or loss.

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

*Loans and borrowings*

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

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

*Convertible bonds*

The component of convertible bonds that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs. On issuance of convertible bonds, the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds from issue of the securities is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years. Transaction costs are apportioned between the liability and equity components of the convertible bonds based on the allocation of proceeds from issue of the securities to the liability and equity components when the instruments are first recognised.

If the contractual substance of convertible bonds is a single obligation to deliver a variable number of equity instruments, the entire obligation meets the definition of financial liability and the convertible bonds are classified as financial liabilities at fair value through profit or loss. Subsequent to initial recognition, the convertible bonds are stated at fair value, and the gains and losses arising from the change in fair values are included in the statement of profit or loss.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Derecognition of financial liabilities**

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

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

**Offsetting of financial instruments**

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

**Income tax**

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

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

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

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

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Income tax** *(continued)*

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

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

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

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

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

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

**Share-based payments**

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

The cost of equity-settled transactions with employees for grants after 7 November 2002 is measured by reference to the fair value at the date at which they are granted. The fair value is determined by an external valuer using the Black-Scholes model.

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

**Share-based payments** *(continued)*

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

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

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

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

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

**Other employee benefits**

*Pension schemes*

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

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Foreign currencies

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

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

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

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

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

### Borrowing costs

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

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Cash and cash equivalents

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

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

### Revenue recognition

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

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;

(b) rental income, on a time proportion basis over the lease terms;

(c) from the fair value gains in securities on the settlement dates when the securities are delivered, or the year end date when the securities are remeasured to fair value;

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

(e) dividend income, when the shareholders' right to receive payment has been established;

(f) from the sale of completed properties, when the significant risks and rewards of ownership of the properties are transferred to the buyers, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the completed properties, that is when the construction of the relevant properties has been completed and the properties have been delivered to the buyers pursuant to the sale agreement, and the collectability of related receivables is reasonably assured; and

(g) from the rendering of services, on the percentage of completion basis, as further explained in the accounting policy for "Contracts for services" below.

## 2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

### Contracts for services

Contract revenue on the rendering of services comprises the agreed contract amount. Costs of rendering services comprise labour and other costs of personnel directly engaged in providing the services and attributable overheads.

Revenue from the rendering of services and costs of rendering services is recognised on satisfaction of a performance obligation by transferring a promised service to a customer.

### Dividends

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

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

## 3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

### Judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

*Classification between investment properties and owner-occupied properties*

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

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

**Judgements** *(continued)*

*Classification between classic cars held for investment and stock of classic cars held for sale*

The Group determines whether a classic car is held for long-term investment purposes, or for trading in the ordinary course of business. Judgement is made on an individual classic car basis to determine whether the classic car is classified as held for investment or held for sale.

**Estimation uncertainty**

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

*Impairment of goodwill*

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows. Further details are given in note 15 to the financial statements.

*Impairment of available-for-sale investments*

The Group classifies certain financial assets as available-for-sale and recognises movements of their fair values in equity. When the fair value declines, management makes assessment about the decline in value to determine whether there is an impairment that should be recognised in the statement of profit or loss. During the year ended 31 December 2017, an impairment loss of HK$25 million (2016: HK$5 million) has been recognised for available-for-sale investments.

*Estimation of fair value of investment properties*

In the absence of current prices in an active market for similar properties, the Group considers information from a variety of sources, including:

(a) current prices in an active market for properties of a different nature, condition or location, adjusted to reflect those differences; and

(b) recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices.

Further details, including the key assumptions used for fair value measurements are given in note 14 to the financial statements.

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

### Estimation uncertainty *(continued)*

*Impairment of trade receivables*

The Group maintains an allowance for the estimated loss arising from the inability of its customers to make the required payments. The Group makes its estimates based on the terms of the receivables, including due dates, the nature of the customers, evidence of disputes, past payment records and settlements received subsequent to the reporting date. If the financial condition of its customers was to deteriorate so that the actual impairment loss might be higher than expected, the Group would be required to revise the basis of making the allowance and its future results would be affected.

*Impairment of properties classified as property, plant and equipment*

The Group assesses whether there are any indicators of impairment for all properties classified as property, plant and equipment at the end of each reporting period. Properties classified as property, plant and equipment are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of the properties classified as property, plant and equipment exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available data from binding sales transactions in an arm's length transaction of similar properties or observable market prices less incremental costs for disposing of the property. When value in use calculations are undertaken, management must estimate the expected future cash flows from the property and choose a suitable discount rate in order to calculate the present value of those cash flows. During the years ended 31 December 2016 and 2017, no impairment has been recognised for properties classified as property, plant and equipment.

*Impairment of stock of properties held for sale*

The Group assesses whether there are any indicators of impairment for stock of properties held for sale at the end of each reporting period. Stock of properties held for sale are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of the stock of properties held for sale exceeds its recoverable amount, which is the lower of cost and net realisable value. The calculation of the net realisable value is determined by reference to the sales proceeds from the properties sold in the ordinary course of business, less applicable variable selling expenses, or by management estimates based on the prevailing market conditions. During the year ended 31 December 2017, a reversal of impairment loss of HK$19 million (2016: impairment loss of HK$24 million) has been recognised for stock of properties held for sale.

*Estimation of fair value of classic cars held for investment*

Classic cars held for investment are revalued at the end of the reporting period by independent professionally qualified valuers. Such valuations were based on certain assumptions, which are subject to uncertainty and might materially differ from the actual results. In making the estimation, market information of classic cars of the same model is considered. Further details are given in note 18 to the financial statements.

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

**Estimation uncertainty** *(continued)*

*Impairment of stock of classic cars held for sale*

The Group assesses whether there are any indicators of impairment for stock of classic cars held for sale at the end of each reporting period. Stock of classic cars held for sale are tested for impairment when there are indicators that the carrying amounts may not be recoverable. An impairment exists when the carrying value of the stock of classic cars held for sale exceeds its recoverable amount, which is the lower of cost and net realisable value. The calculation of the net realisable value is determined by reference to the estimates based on the prevailing market conditions. During the year ended 31 December 2017, no impairment loss (2016: Nil) has been recognised for stock of classic cars held for sale.

## 4. OPERATING SEGMENT INFORMATION

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

(a) the Hong Kong property development and trading segment representing the development and trading of properties in Hong Kong;

(b) the property investment and holding segment which represents investment and holding of properties;

(c) the securities business segment representing the trading in securities and holding of securities and treasury products;

(d) Ferrari dealership business representing sale and distribution of Ferrari cars and provision of after-sale services as official dealer of Ferrari in Hong Kong;

(e) classic cars trading and logistic segment representing the trading and sale of classic cars and car logistic business;

(f) investment in classic cars segment which is acquisition of classic cars for long-term investment purpose;

(g) the mobile game operations segment which is the development and operations of mobile game;

(h) the film operations representing production, investment and distribution of films worldwide;

(i) the audio and lighting operations representing the provision and leasing of audio and lighting equipment and services for production of concert and entertainment events;

(j) the stage engineering operations representing the provision of metal construction work and engineering services for stage performance events;

(k) the industrial group segment representing the manufacture of plastic components and trading of child products; and

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

(l) other operations segment which is engaged in supportive business and start-up business including classic car service centre, magazine publication and investment in antique watches and clocks.

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

Segment assets exclude deferred tax assets and corporate and other unallocated assets as these assets are managed on a group basis.

Segment liabilities exclude deferred tax liabilities, tax payable and corporate and other unallocated liabilities as these liabilities are managed on a group basis.

*For the year ended 31 December 2017*

| HK$ million | Property development and trading in Hong Kong | Property investment and holding | Securities business | Ferrari dealership | Classic cars trading and logistic | Investment in classic cars | Mobile game development and operations | Film operations | Audio and lighting operations | Stage engineering operations | Industrial Group | Other operations | Recon-ciliations | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Segment revenue:** | | | | | | | | | | | | | | |
| Sales to external customers | – | 11 | 3 | 7 | 105 | – | 1 | – | 149 | 43 | 213 | 53 | – | 585 |
| Other revenue | 1 | 2 | – | 1 | – | – | – | 1 | – | – | 1 | 6 | 9 | 21 |
| Intersegment revenue | – | 3 | – | – | 1 | – | – | – | – | 7 | – | 8 | (19) | – |
| | 1 | 16 | 3 | 8 | 106 | – | 1 | 1 | 149 | 50 | 214 | 67 | (10) | 606 |
| Operating profit/(loss) | 11 | 328 | – | (22) | (11) | 16 | (26) | (6) | 10 | 9 | 3 | (40) | | 272 |
| Finance costs | | | | | | | | | | | | | | (55) |
| Reconciled items: | | | | | | | | | | | | | | |
| Corporate and other unallocated expenses | | | | | | | | | | | | | | (37) |
| Share of loss of an associate | | | | | | | | | | | | | | (2) |
| Impairment loss on investments | | | | | | | | | | | | | | (25) |
| Others | | | | | | | | | | | | | | 20 |
| **Profit before tax** | | | | | | | | | | | | | | 173 |
| Income tax credit | | | | | | | | | | | | | | 6 |
| **Profit for the year** | | | | | | | | | | | | | | 179 |

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

*For the year ended 31 December 2017 (continued)*

| HK$ million | Property development and trading in Hong Kong | Property investment and holding | Securities business | Ferrari dealership | Classic cars trading and logistic | Investment in classic cars | Mobile game development and operations | Film operations | Audio and lighting operations | Stage engineering operations | Industrial Group | Other operations | Recon-ciliations | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Other segment information:** | | | | | | | | | | | | | | |
| Expenditure for non-current assets | – | 6 | – | 44 | 4 | 12 | – | 2 | 9 | – | 3 | 50 | – | 130 |
| Depreciation and amortisation | – | (9) | (1) | (4) | (2) | – | – | (1) | (11) | – | (1) | (16) | – | (45) |
| **Other material non-cash items:** | | | | | | | | | | | | | | |
| Fair value gain on investment properties | – | 302 | – | – | – | – | – | – | – | – | – | – | – | 302 |
| Fair value gain on classic cars held for investment | – | – | – | – | – | 12 | – | – | – | – | – | – | – | 12 |
| Gain on disposal of investment properties | – | 32 | – | – | – | – | – | – | – | – | – | – | – | 32 |
| Share of loss of an associate | – | – | – | – | – | – | – | – | – | – | – | (2) | – | (2) |
| **Segment assets** | 276 | 1,435 | 1,589 | 131 | 217 | 155 | 4 | 88 | 180 | 52 | 75 | 433 | – | 4,635 |
| Reconciled items: | | | | | | | | | | | | | | |
| Corporate and other unallocated assets | – | – | – | – | – | – | – | – | – | – | – | – | 583 | 583 |
| Total assets | 276 | 1,435 | 1,589 | 131 | 217 | 155 | 4 | 88 | 180 | 52 | 75 | 433 | 583 | 5,218 |
| **Segment liabilities** | 118 | 676 | 475 | 173 | 6 | – | 2 | – | 67 | 14 | 42 | 114 | – | 1,687 |
| Reconciled items: | | | | | | | | | | | | | | |
| Corporate and other unallocated liabilities | – | – | – | – | – | – | – | – | – | – | – | – | 181 | 181 |
| Total liabilities | 118 | 676 | 475 | 173 | 6 | – | 2 | – | 67 | 14 | 42 | 114 | 181 | 1,868 |

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

*For the year ended 31 December 2016 (Restated)*

| HK$ million | Property development and trading in Hong Kong | Property investment and holding | Securities Business | Classic cars trading and logistic | Investment in classic cars | Mobile game development and operations | Film operations | Audio and lighting operations | Stage engineering operations | Industrial Group | Other operations | Recon- ciliations | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Segment revenue:** | | | | | | | | | | | | | |
| Sales to external customers | – | 12 | 514 | 60 | – | – | – | 118 | 25 | 117 | 49 | – | 895 |
| Other revenue | 6 | 2 | – | – | 14 | – | – | – | – | 3 | 9 | 1 | 35 |
| Intersegment revenue | – | 3 | – | – | – | – | – | – | – | – | 1 | (4) | – |
| | 6 | 17 | 514 | 60 | 14 | – | – | 118 | 25 | 120 | 59 | (3) | 930 |
| Operating (loss)/profit | (30) | (13) | 506 | (7) | 13 | (6) | (6) | 22 | 8 | (11) | (37) | | 439 |
| Finance costs | | | | | | | | | | | | | (40) |
| Reconciled items: | | | | | | | | | | | | | |
| Corporate and other unallocated expenses | | | | | | | | | | | | | (93) |
| Gain on settlement of promissory notes | | | | | | | | | | | | | 46 |
| **Profit before tax** | | | | | | | | | | | | | 352 |
| Income tax expenses | | | | | | | | | | | | | (39) |
| **Profit for the year** | | | | | | | | | | | | | 313 |

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

*For the year ended 31 December 2016 (Restated) (continued)*

| HK$ million | Property development and trading in Hong Kong | Property investment and holding | Securities Business | Classic cars trading and logistic | Investment in classic cars | Mobile game development and operations | Film operations | Audio and lighting operations | Stage engineering operations | Industrial Group | Other operations | Recon-ciliations | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Other segment information: | | | | | | | | | | | | | |
| Interest income | – | – | – | – | – | – | – | – | – | 2 | – | – | 2 |
| Expenditure for non-current assets | – | 436 | 5 | 4 | 47 | – | – | 54 | – | 1 | 134 | – | 681 |
| Depreciation | – | (5) | (1) | (2) | – | – | – | (6) | – | – | (14) | – | (28) |
| **Other material non-cash items:** | | | | | | | | | | | | | |
| Fair value loss on investment properties | – | (17) | – | – | – | – | – | – | – | – | (2) | – | (19) |
| Fair value gains on classic cars | – | – | – | – | 14 | – | – | – | – | – | – | – | 14 |
| Impairment of stock of properties held for trading | (24) | – | – | – | – | – | – | – | – | – | – | – | (24) |
| Impairment of available-for-sale investment | – | – | – | – | – | – | – | – | – | – | (5) | – | (5) |
| Loss on early redemption of held-to-maturity debt securities | – | – | (2) | – | – | – | – | – | – | – | – | – | (2) |
| Provision for doubtful debt | – | – | – | – | – | – | – | – | – | – | (2) | – | (2) |
| **Segment assets** | 341 | 1,619 | 1,763 | 162 | 129 | 5 | 25 | 155 | 45 | 82 | 408 | – | 4,734 |
| Reconciled items: | | | | | | | | | | | | | |
| Corporate and other unallocated assets | – | – | – | – | – | – | – | – | – | – | – | 235 | 235 |
| Total assets | 341 | 1,619 | 1,763 | 162 | 129 | 5 | 25 | 155 | 45 | 82 | 408 | 235 | 4,969 |
| **Segment liabilities** | | | | | | | | | | | | | |
| Reconciled items: | 166 | 789 | 345 | 21 | 1 | 1 | 6 | 69 | 23 | 44 | 126 | – | 1,591 |
| Corporate and other unallocated liabilities | – | – | – | – | – | – | – | – | – | – | – | 176 | 176 |
| Total liabilities | 166 | 789 | 345 | 21 | 1 | 1 | 6 | 69 | 23 | 44 | 126 | 176 | 1,767 |

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

### Geographical information

*(a) Revenue from external customers*

| HK$ million | **2017** | 2016 |
|---|---|---|
| Hong Kong, Mainland China and Macau | **401** | 854 |
| USA and Canada | **97** | 18 |
| Europe | **79** | 11 |
| Elsewhere | **8** | 12 |
| | **585** | 895 |

The revenue information above is based on the final locations where the Group's products were sold to customers.

*(b) Non-current assets*

| HK$ million | **2017** | 2016 |
|---|---|---|
| Hong Kong and Macau | **2,593** | 2,233 |

The non-current asset information is based on the locations of the assets and excludes financial instruments.

### Information about major customers

For the year ended 31 December 2017, revenue of approximately HK$107 million was derived from sales of the Industrial Group to a single customer representing 18% of the Group's total revenue.

For the year ended 31 December 2016, revenue of approximately HK$75 million was derived from sales of the Industrial Group to a single customer representing 20% of the Group's total revenue excluding the Group's net realised gains from disposal and change in fair value of securities investment at fair value through profit or loss.

## 5. REVENUE, OTHER INCOME AND GAINS

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts, gross income from treasury investment which includes interest income on bank deposits and other financial assets, net gains or losses from disposal and change in fair value of trading securities investment (which includes dividend income), proceeds from sale of properties, rental income from investment properties, trading of classic cars, provision of automotive services and provision of audio and lighting services and stage engineering work and services.

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

| HK$ million | **2017** | 2016 |
|---|---|---|
| **Revenue** | | |
| Rental income from investment properties | **11** | 12 |
| Net realised gains from disposal and change in fair value of trading securities | **3** | 514 |
| Income from Ferrari Dealership | **7** | – |
| Sale of classic cars | **45** | 47 |
| Classic cars service income | **60** | 13 |
| Provision and leasing of lighting and audio equipment and services | **149** | 118 |
| Income from stage engineering operation | **43** | 25 |
| Manufacture and sale of plastic components and sale of child products | **213** | 115 |
| Mobile game | **1** | – |
| Bank interest income | **–** | 2 |
| Income from other operations | **53** | 49 |
| | **585** | 895 |
| **Other income and gains** | | |
| Fair value gain on investment properties | **302** | – |
| Gain on settlement of promissory notes | **–** | 46 |
| Fair value gain on classic cars held for investment, net | **12** | 14 |
| Gain on disposal of an investment property | **32** | – |
| Reversal of impairment loss on stock of properties | **19** | – |
| Fair value gain on antique watches and clocks held for investment | **1** | – |
| Others | **47** | 21 |
| | **413** | 81 |

## 6. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

| HK$ million | Notes | 2017 | 2016 |
|---|---|---|---|
| Cost of inventories sold | | **206** | 109 |
| Cost of classic cars sold | | **43** | 42 |
| Cost of automotive services provided | | **59** | 7 |
| Cost of audio and lighting services provided | | **118** | 91 |
| Cost of stage engineering services provided | | **37** | 12 |
| Cost of other operations | | **38** | 34 |
| Cost of mobile game development and operations | | **12** | – |
| Depreciation | 13 | **42** | 28 |
| Amortisation of intangible assets [2] | 16 | **3** | – |
| | | | |
| Minimum lease payments under operating leases | | **15** | 9 |
| Auditors' remuneration | | **3** | 2 |
| | | | |
| Employee benefit expense (excluding directors' and chief executive's remuneration (note 8)): | | | |
| Wages and salaries | | **78** | 56 |
| Pension scheme contributions [3] | | **3** | 3 |
| | | **81** | 59 |
| Foreign exchange differences, net [2] | | **(1)** | 2 |
| Gains from the change in fair value of trading securities, net [4] | | **(3)** | (514) |
| Gain on disposal of investment properties [5] | | **(32)** | – |
| Reversal of impairment loss on stock of properties [5] | | **(19)** | – |
| Impairment loss on stock of properties [1] | | **–** | 24 |
| Fair value (gain)/loss on investment properties, net [1]/[5] | | **(302)** | 19 |
| Impairment loss on an available-for-sale investment [1] | | **25** | 5 |
| Loss on early redemption of held-to-maturity debt securities [1] | | **–** | 2 |

(1) Included in "Other expenses" on the face of the consolidated statement of profit or loss.

(2) Included in "Administrative expenses" on the face of the consolidated statement of profit or loss.

(3) The effect of forfeited contributions on the Group's contributions to the pension schemes for the year, and the amounts of forfeited contributions available to reduce contributions in future years, were not material.

(4) Included in "Revenue" on the face of the consolidated statement of profit or loss.

(5) Included in "Other income and gains" on the face of the consolidated statement of profit or loss.

## 7. FINANCE COSTS

An analysis of finance costs is as follows:

| HK$ million | 2017 | 2016 |
|---|---|---|
| Interest on bank loans | **39** | 29 |
| Interest on convertible bonds | **16** | 11 |
| Total interest expense on financial liabilities not at fair value through profit or loss | **55** | 40 |

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

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

| HK$ million | 2017 | 2016 |
|---|---|---|
| Fees: | | |
| Executive directors and chief executive | **–** | – |
| Independent non-executive directors | **–** | – |
| | **–** | – |
| Executive directors' and chief executive's other emoluments: | | |
| Salaries, allowances and benefits in kind | **19** | 13 |
| Discretionary bonuses | **–** | 28 |
| Pension scheme contributions | **1** | 1 |
| | **20** | 42 |
| | **20** | 42 |

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

### (a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

| HK$ million | Fees<br>HK$'000 |
|---|---|
| **2017** | |
| Tam King Ching, Kenny | **240** |
| Chow Siu Ngor | **–** |
| Chen Li | **240** |
| | **480** |
| **2016** | |
| Tam King Ching, Kenny | 240 |
| Chow Siu Ngor | – |
| Chen Li | 240 |
| | 480 |

There were no other emoluments payable to the independent non-executive directors during the year (2016: Nil).

### (b) Executive directors and the chief executive

| HK$ million | Salaries, allowances and benefits in kind | Discre-tionary bonuses | Pension scheme contributions | Total remuneration |
|---|---|---|---|---|
| **2017** | | | | |
| Executive director and chief executive: | | | | |
| Mak Shiu Tong, Clement ("Mr. Mak") | **15** | **–** | **1** | **16** |
| Executive directors: | | | | |
| Tam Ngai Hung, Terry | **2** | **–** | **–** | **2** |
| Cheng Yuk Ching, Flora | **2** | **–** | **–** | **2** |
| | **4** | **–** | **–** | **4** |
| | **19** | **–** | **1** | **20** |

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

### (b) Executive directors and the chief executive *(continued)*

| HK$ million | Salaries, allowances and benefits in kind | Discre-tionary bonuses | Pension scheme contributions | Total remuneration |
|---|---|---|---|---|
| 2016 | | | | |
| Executive director and chief executive: | | | | |
| Mr. Mak | 8 | 22 | 1 | 31 |
| Executive directors: | | | | |
| Tam Ngai Hung, Terry | 3 | 3 | – | 6 |
| Cheng Yuk Ching, Flora | 2 | 3 | – | 5 |
| William Donald Putt | – | – | – | – |
| | 5 | 6 | – | 11 |
| | 13 | 28 | 1 | 42 |

With effect from 1 July 2011, quarters have been provided to Mr. Mak free of charge and at the same time his remuneration receivable from the Company has been reduced by HK$200,000 per month. The amount of Mr. Mak's remuneration for 2017 and 2016 has included the estimated value of the housing benefit provided to him for the periods.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year (2016: Nil).

## 9. FIVE HIGHEST PAID EMPLOYEES

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

| HK$ million | **2017** | 2016 |
|---|---|---|
| Salaries, allowances and benefits in kind | **4** | 4 |

## 9. FIVE HIGHEST PAID EMPLOYEES *(continued)*

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

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

## 10. INCOME TAX

Hong Kong profits tax has been provided at the rate of 16.5% (2016: 16.5%) on the estimated assessable profits arising in Hong Kong during the year. Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates.

| HK$ million | **2017** | 2016 |
|---|---|---|
| Current — Hong Kong | | |
| Charge for the year | **2** | 21 |
| Overprovision in prior year | **(4)** | (3) |
| Deferred | **(4)** | 21 |
| Total tax (credit)/charge for the year | **(6)** | 39 |

## 10. INCOME TAX *(continued)*

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

**2017**

| HK$ million | Hong Kong | % | Mainland China | % | Total | % |
|---|---|---|---|---|---|---|
| Profit before tax | **163.0** | | **9.6** | | **172.6** | |
| Tax at the statutory or appropriate tax rate | **26.9** | **16.5** | **2.4** | **25.0** | **29.3** | **17.0** |
| Adjustments in respect of current tax of previous periods | **(4.0)** | **(2.4)** | **–** | **–** | **(4.0)** | **(2.3)** |
| Adjustments in respect of deferred tax of previous period | **(10.8)** | **(6.6)** | **–** | **–** | **(10.8)** | **(6.3)** |
| Income not subject to tax | **(53.9)** | **(33.1)** | **(1.7)** | **(17.7)** | **(55.6)** | **(32.2)** |
| Expenses not deductible for tax | **3.2** | **2.0** | **–** | **–** | **3.2** | **1.9** |
| Tax losses not recognised | **32.5** | **19.9** | **0.2** | **2.1** | **32.7** | **18.9** |
| Tax losses utilised from previous periods | **–** | **–** | **(0.9)** | **(9.4)** | **(0.9)** | **(0.5)** |
| Tax charge at the Group's effective rate | **(6.1)** | **(3.7)** | **–** | **–** | **(6.1)** | **(3.5)** |

2016

| HK$ million | Hong Kong | % | Mainland China | % | Total | % |
|---|---|---|---|---|---|---|
| Profit/(loss) before tax | 354.5 | | (3.0) | | 351.5 | |
| Tax at the statutory or appropriate tax rate | 58.5 | 16.5 | (0.8) | 25.0 | 57.7 | 16.4 |
| Adjustments in respect of current tax of previous periods | (2.7) | (0.8) | – | – | (2.7) | (0.8) |
| Income not subject to tax | (14.2) | (4.0) | – | – | (14.2) | (4.0) |
| Expenses not deductible for tax | 3.0 | 0.9 | – | – | 3.0 | 0.9 |
| Tax losses not recognised | 28.8 | 8.1 | 0.8 | (25.0) | 29.6 | 8.4 |
| Tax losses utilised from previous periods | (34.3) | (9.7) | – | – | (34.3) | (9.8) |
| Tax charge at the Group's effective rate | 39.1 | 11.0 | – | – | 39.1 | 11.1 |

## 11. DIVIDENDS

| HK$ million | 2017 | 2016 |
|---|---|---|
| Paid interim — HK$0.035 (2016: HK$0.035) per ordinary share | **31** | 31 |
| Proposed final — HK$0.035 (2016: HK$0.035) per ordinary share | **31** | 31 |
| Total | **62** | 62 |

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

## 12. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT

The calculations of the basic and diluted earnings per share are based on:

| HK$ million | 2017 | 2016 |
|---|---|---|
| Profit attributable to ordinary equity holders of the parent, used in the basic earnings per share calculations | **181** | 303 |
| Interest on convertible bonds | **15** | 9 |
| Profit attributable to ordinary equity holders of the parent before interest on convertible bonds, used in the diluted earnings per share calculations | **196** | 312 |

| | Number of shares | |
|---|---|---|
| | **2017** | 2016 |
| Weighted average number of ordinary shares in issue during the year used in the basic earnings per share calculations | **877,664,866** | 847,670,615 |
| Effect of dilution — weighted average number of ordinary shares: | | |
| Convertible bonds | **320,769,231** | 40,469,435 |
| Weighted average number ordinary shares used in the diluted earnings per share calculations | **1,198,434,097** | 888,140,050 |

## 13. PROPERTY, PLANT AND EQUIPMENT

| HK$ million | Leasehold land and buildings | Plant and machinery | Tools, moulds and equipment | Furniture and office equipment | Motor vehicles | Total |
|---|---|---|---|---|---|---|
| **31 December 2017** | | | | | | |
| At 31 December 2016 and 1 January 2017: | | | | | | |
| Cost | 837 | 6 | 69 | 46 | 16 | 974 |
| Accumulated depreciation | (87) | (1) | (22) | (22) | (5) | (137) |
| Net carrying amount | 750 | 5 | 47 | 24 | 11 | 837 |
| At 1 January 2017, net of accumulated depreciation | 750 | 5 | 47 | 24 | 11 | 837 |
| Additions | 22 | 1 | 10 | 5 | 12 | 50 |
| Disposals | – | – | (1) | – | – | (1) |
| Depreciation provided during the year | (22) | (1) | (10) | (5) | (4) | (42) |
| At 31 December 2017, net of accumulated depreciation | 750 | 5 | 46 | 24 | 19 | 844 |
| At 31 December 2017: | | | | | | |
| Cost | 859 | 7 | 78 | 51 | 28 | 1,023 |
| Accumulated depreciation | (109) | (2) | (32) | (27) | (9) | (179) |
| Net carrying amount | 750 | 5 | 46 | 24 | 19 | 844 |

## 13. PROPERTY, PLANT AND EQUIPMENT *(continued)*

| HK$ million | Leasehold land and buildings | Plant and machinery | Tools, moulds and equipment | Furniture and office equipment | Motor vehicles | Total |
|---|---|---|---|---|---|---|
| **31 December 2016** | | | | | | |
| At 1 January 2016: | | | | | | |
| Cost | 495 | 121 | 17 | 35 | 9 | 677 |
| Accumulated depreciation | (70) | (118) | (17) | (15) | (3) | (223) |
| Net carrying amount | 425 | 3 | – | 20 | 6 | 454 |
| At 1 January 2016, net of accumulated depreciation | 425 | 3 | – | 20 | 6 | 454 |
| Additions | 124 | 3 | 2 | 17 | 10 | 156 |
| Disposals | – | – | – | (11) | (3) | (14) |
| Transfer from investment properties (note 14) | 218 | – | – | – | – | 218 |
| Acquisition of subsidiaries and a business (note 40) | – | – | 51 | – | – | 51 |
| Depreciation provided during the year | (17) | (1) | (6) | (2) | (2) | (28) |
| At 31 December 2016, net of accumulated depreciation | 750 | 5 | 47 | 24 | 11 | 837 |
| At 31 December 2016: | | | | | | |
| Cost | 837 | 6 | 69 | 46 | 16 | 974 |
| Accumulated depreciation | (87) | (1) | (22) | (22) | (5) | (137) |
| Net carrying amount | 750 | 5 | 47 | 24 | 11 | 837 |

The net carrying amount of the Group's property, plant and equipment held under finance leases included in the total amount of motor vehicles as at 31 December 2017 was approximately HK$9 million (2016: HK$4 million).

At 31 December 2017, certain of the Group's leasehold land and buildings with an aggregate net carrying amount of approximately HK$750 million (2016: HK$750 million) were pledged to secure general banking facilities granted to the Group (note 32(b)(i)).

## 14. INVESTMENT PROPERTIES

| HK$ million | **2017** | 2016 |
|---|---|---|
| Carrying amount at 1 January | **1,179** | 978 |
| Additions | **6** | 4 |
| Transfer to property, plant and equipment (note 13) | **–** | (218) |
| Transfer from a stock of property held for sale | **82** | – |
| Acquisition of a subsidiary that is not a business (note 41) | **–** | 434 |
| Disposal of an investment property | **(113)** | – |
| Fair value gain/(loss) on investment properties, net | **302** | (19) |
| Carrying amount at 31 December | **1,456** | 1,179 |

The Group's investment properties consist of commercial and residential properties in Hong Kong. The directors of the Company have determined that the investment properties consist of two classes of assets, i.e., commercial and residential, based on the nature, characteristics and risks of each property. The Group's investment properties were revalued on 31 December 2017 based on valuations performed by Grant Sherman Appraisal Limited, independent professionally qualified valuers. Each year, the Group's directors decide to appoint which external valuer to be responsible for the external valuations of the Group's properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained. The Group's finance director has discussions with the valuer on the valuation assumptions and valuation results twice a year when the valuation is performed for interim and annual financial reporting.

At 31 December 2017, the Group's investment properties with an aggregate carrying amount of HK$1,456 million (2016: HK$1,179 million) were pledged to secure banking facilities granted to the Group (note 32(b)(ii)).

## 14. INVESTMENT PROPERTIES *(continued)*

**Fair value hierarchy**

The following table illustrates the fair value measurement hierarchy of the Group's investment properties:

| HK$ million | **Fair value measurement as at 31 December 2017 using** Quoted prices in active markets (Level 1) | Significant observable inputs (Level 2) | Significant unobservable inputs (Level 3) | **Total** |
|---|---|---|---|---|
| Recurring fair value measurement for: | | | | |
| Commercial properties | **–** | **–** | **646** | **646** |
| Residential properties | **–** | **–** | **810** | **810** |
| | **–** | **–** | **1,456** | **1,456** |

| HK$ million | Fair value measurement as at 31 December 2016 using Quoted prices in active markets (Level 1) | Significant observable inputs (Level 2) | Significant unobservable inputs (Level 3) | Total |
|---|---|---|---|---|
| Recurring fair value measurement for: | | | | |
| Commercial properties | – | – | 553 | 553 |
| Residential properties | – | – | 626 | 626 |
| | – | – | 1,179 | 1,179 |

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

## 14. INVESTMENT PROPERTIES *(continued)*

**Fair value hierarchy** *(continued)*

Reconciliation of fair value measurements categorised within Level 3 of the fair value hierarchy:

| HK$ million | Commercial properties | Residential properties |
|---|---|---|
| Carrying amount at 1 January 2016 | 580 | 398 |
| Additions | – | 4 |
| Acquisition of a subsidiary that is not a business (note 41) | – | 434 |
| Net (losses)/gains from fair value adjustments recognised in other income and gains and other expenses in profit or loss | (27) | 8 |
| Transfer to property, plant and equipment | – | (218) |
| Carrying amount at 31 December 2016 and 1 January 2017 | 553 | 626 |
| Additions | **–** | **6** |
| Net gains from fair value adjustments recognised in other income and gains in profit or loss | **124** | **178** |
| Disposal of an investment property | **(113)** | **–** |
| Transfer from a stock of property held for sale | **82** | **–** |
| Carrying amount at 31 December 2017 | **646** | **810** |

Below is a summary of the valuation techniques used and the key inputs to the valuation of investment properties:

| | Valuation techniques | Significant unobservable inputs | Range or weighted average | |
|---|---|---|---|---|
| | | | **2017** | 2016 |
| Commercial properties | Market approach | Adopted unit rate (per square feet) | **HK$3,700 to HK$55,200** | HK$3,300 to HK$47,000 |
| Residential properties | Market approach | Adopted unit rate (per square feet) | **HK$12,700 to HK$72,000** | HK$47,000 to HK$53,500 |

Under the market approach, fair value is estimated using the unit rate of comparable transactions of similar properties and adjusted for the uniqueness of each property multiplied by the gross floor area of each property.

A significant increase/(decrease) in the adopted unit rate would result in a significant increase/(decrease) in the fair value of the investment properties.

## 15. GOODWILL

| HK$ million | |
|---|---|
| **31 December 2016** | |
| At 1 January 2016 | |
| Cost | 17 |
| Accumulated impairment | – |
| Net carrying amount | 17 |
| Cost at 1 January 2016, net of accumulated impairment | 17 |
| Acquisitions of subsidiaries and businesses (note 40) | 86 |
| Cost and net carrying amount at 31 December 2016 | 103 |
| **At 31 December 2016** | |
| Cost | **103** |
| Accumulated impairment | **–** |
| Net carrying amount | **103** |
| **31 December 2017** | |
| At 31 December 2016, 1 January 2017 and 31 December 2017 | |
| Cost | **103** |
| Accumulated impairment | **–** |
| Net carrying amount | **103** |

**Impairment testing of goodwill**

Goodwill acquired through business combinations is allocated to the following cash-generating units for impairment testing:

- Car logistic cash-generating unit;
- Audio and lighting operation cash-generating unit; and
- Stage engineering operation cash-generating unit.

*Car logistic cash-generating unit*

The recoverable amount of the car logistic cash-generating unit was determined based on value in use calculations using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections of the car logistic unit for 2017 was 15% (2016: 15%). The cash flow projections of the car logistic unit beyond the respective periods of financial budgets were extrapolated using a growth rate of 3% (2016: 3%), which did not exceed the long term average growth rate of the industry.

*Audio and lighting operations cash-generating unit*

The recoverable amount of the audio and lighting operations cash-generating unit was determined based on value in use calculations using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections of the audio and lighting operations for 2017 was 15% (2016: 15%). The cash flow projections of the audio and lighting operations unit beyond the respective periods of financial budgets were extrapolated using a growth rate of 3% (2016: 3%), which did not exceed the long term average growth rate of the industry.

## 15. GOODWILL *(continued)*

**Impairment testing of goodwill** *(continued)*

*Stage engineering operations cash-generating unit*

The recoverable amount of the stage engineering operations cash-generating unit was determined based on value in use calculations using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections of the stage engineering operations for 2017 was 14% (2016: 15%). The cash flow projections of the stage engineering operations unit beyond the respective periods of financial budgets were extrapolated using a growth rate of 3% (2016: 3%), which did not exceed the long term average growth rate of the industry.

The carrying amount of goodwill allocated to each of the cash-generating units is as follow:

| HK$ million | **2017** | 2016 |
|---|---|---|
| Car logistic | **17** | 17 |
| Audio and lighting operations | **61** | 61 |
| Stage engineering operations | **25** | 25 |
| | **103** | 103 |

Assumptions were used in the value in use calculation of the car logistic, audio and lighting operations and stage engineering operations cash-generating units for 31 December 2017 and 2016. The following describes each key assumption on which management had based its cash flow projections to undertake impairment testing of goodwill:

*Discount rates* — The discount rates used are before tax and reflect specific risks relating to the relevant units.

*Business environment* — There was no major change in the existing political, legal and economic conditions in the countries with which and the countries in which the cash-generating units carry on their businesses.

## 16. INTANGIBLE ASSETS

| HK$ million | |
|---|---|
| Cost at 1 January 2016, 31 December 2016, and 1 January 2017, net of accumulated amortisation | – |
| Additions | 31 |
| Amortisation provided during the year | (3) |
| At 31 December 2017 | 28 |
| At 31 December 2017 | |
| Cost | **31** |
| Accumulated amortisation | **(3)** |
| Net carrying amount | **28** |

## 17. INVESTMENT IN AN ASSOCIATE

| HK$ million | 2017 | 2016 |
|---|---|---|
| Share of net assets | **10** | 13 |

The following table illustrates the financial information of the Group's associate that is not individually material:

| HK$ million | 2017 | 2016 |
|---|---|---|
| Share of the associate's loss for the year | **2** | – |
| Share of the associate's total comprehensive loss | **2** | – |
| Aggregate carrying amount of the Group's investment in an associate | **10** | 13 |

## 18. CLASSIC CARS HELD FOR INVESTMENT

| HK$ million | 2017 | 2016 |
|---|---|---|
| Classic cars held for investment, at fair value | **120** | 92 |

The following table illustrates the fair value measurement hierarchy of the Group's classic cars held for investment:

| | Fair value measurement as at 31 December 2017 using | | | |
|---|---|---|---|---|
| HK$ million | Quoted prices in active markets (Level 1) | Significant observable inputs (Level 2) | Significant unobservable inputs (Level 3) | Total |
| Recurring fair value measurement for: | | | | |
| Classic cars held for investment | **–** | **–** | **120** | **120** |

| | Fair value measurement as at 31 December 2016 using | | | |
|---|---|---|---|---|
| HK$ million | Quoted prices in active markets (Level 1) | Significant observable inputs (Level 2) | Significant unobservable inputs (Level 3) | Total |
| Recurring fair value measurement for: | | | | |
| Classic cars held for investment | – | – | 92 | 92 |

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

## 18. CLASSIC CARS HELD FOR INVESTMENT *(continued)*

Reconciliation of fair value measurements categorised within Level 3 of the fair value hierarchy:

| HK$ million | |
|---|---|
| Carrying amount at 1 January 2016 | 57 |
| Additions | 47 |
| Net gain from a fair value adjustment recognised in other income and gains in profit or loss | 14 |
| Transfer to non-current assets held for sale (note 24) | (26) |
| Carrying amount at 31 December 2016 and 1 January 2017 | 92 |
| Additions | **12** |
| Net gain from a fair value adjustment recognised in other income and gains in profit or loss | **12** |
| Transfer from stock of classic cars held for sale | **4** |
| Carrying amount at 31 December 2017 | **120** |

Below is a summary of the valuation technique used and the key input to the valuation of classic cars held for investment:

| | Valuation technique | Significant unobservable input | Range or weighted average | |
|---|---|---|---|---|
| | | | **2017** | 2016 |
| Classic cars held for investment | Market approach | Transaction price (per unit) | **HK$2 million to HK$35 million** | HK$2 million to HK$35 million |

Under the market approach, fair value is estimated using the market price of comparable transactions of similar classic cars held for investment and adjusted for the uniqueness of each classic car.

A significant increase/(decrease) in the transaction price would result in a significant increase/(decrease) in the fair value of the classic cars held for investment.

## 19. ANTIQUE WATCHES AND CLOCKS HELD FOR INVESTMENT

| HK$ million | 2017 | 2016 |
|---|---|---|
| Antique watches and clocks held for investment, at fair value | 32 | – |

The following table illustrates the fair value measurement hierarchy of the Group's antique watches and clocks held for investment:

| | Fair value measurement as at 31 December 2017 using | | | |
|---|---|---|---|---|
| HK$ million | Quoted prices in active markets (Level 1) | Significant observable inputs (Level 2) | Significant unobservable inputs (Level 3) | Total |
| Recurring fair value measurement for: | | | | |
| Antique watches and clocks held for investment | – | – | 32 | 32 |

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

## 19. ANTIQUE WATCHES AND CLOCKS HELD FOR INVESTMENT *(continued)*

Reconciliation of fair value measurements categorised within Level 3 of the fair value hierarchy:

| HK$ million | |
|---|---|
| Carrying amount at 1 January 2016, 31 December 2016 and 1 January 2017 | – |
| Additions | 31 |
| Net gain from fair value adjustment recognised in other income and gains in profit or loss | 1 |
| Carrying amount at 31 December 2017 | 32 |

Below is a summary of the valuation technique used and the key input to the valuation of antique watches and clocks held for investment:

| | Valuation technique | Significant unobservable input | Range or weighted average | |
|---|---|---|---|---|
| | | | **2017** | 2016 |
| Antique watches and clocks held for investment | Market approach | Transaction price (per unit) | **HK$150,000 to HK$5 million** | – |

Under the market approach, fair value is estimated using the market price of comparable transactions of similar antique watches and clocks held for investment and adjusted for the uniqueness of each antique watch and clock.

A significant increase/(decrease) in the transaction price would result in a significant increase/(decrease) in the fair value of the antique watches and clocks held for investment.

## 20. AVAILABLE-FOR-SALE INVESTMENTS

| HK$ million | **2017** | 2016 |
|---|---|---|
| Unlisted equity investments, at cost | **31** | 92 |
| Unlisted equity investment, at fair value | **78** | – |
| Other assets, at fair value | **4** | 4 |
| | **113** | 96 |

During the year, the gross gain in respect of the Group's certain available-for-sale investments recognised in other comprehensive income amounted to HK$33 million.

The above unlisted investments and other assets consist of investments in equity securities and club debentures which are designated as available-for-sale investments and have no fixed maturity date or coupon rate. Certain equity investment of the Group is carried at cost as its fair value cannot be reliably measured.

## 21. INVENTORIES

| HK$ million | 2017 | 2016 |
|---|---|---|
| Raw materials | **6** | 5 |
| Work in progress | **1** | 2 |
| Finished goods | **16** | 3 |
| | **23** | 10 |

At 31 December 2017, certain inventories of the Group with an aggregate net carrying amount of approximately HK$6 million (2016: Nil) were pledged to secure a general trading facility granted to the Group (note 32(b)(iv)).

## 22. STOCK OF PROPERTIES HELD FOR SALE

All the stock of properties held for sale are stated at lower of cost and net realisable value.

At 31 December 2017, certain of the Group's stock of properties held for sale with an aggregate net carrying amount of approximately HK$274 million (2016: HK$337 million) were pledged to secure general banking facilities granted to the Group (note 32(b)(iii)).

## 23. STOCK OF CLASSIC CARS HELD FOR SALE

| HK$ million | 2017 | 2016 |
|---|---|---|
| Stock of classic cars held for sale, at lower of cost and net realisable value | **176** | 113 |

## 24. NON-CURRENT ASSETS HELD FOR SALE

During the year ended 31 December 2016, the Group entered into an agreement for the disposal of a classic car held for investment of HK$26 million and the sale is considered to be highly probable in the forthcoming year. The recoverable amount of the non-current assets held for sale as at the end of the reporting period, being the fair value less costs to sell, was estimated with reference to the amount of the disposal consideration. During the year ended 31 December 2017, the sales transaction was completed.

## 25. TRADE RECEIVABLES

| HK$ million | 2017 | 2016 |
|---|---|---|
| Trade receivables | **1,664** | 1,814 |
| Impairment | **(3)** | (2) |
| | **1,661** | 1,812 |

The Group's trading terms with its customers of components operation are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally two months, extending up to three months for major customers. In respect of the Group's car logistic business, the credit period is generally one month. The credit term granted to the customers of trading securities is up to 270 days. Each customer has a maximum credit limit. The Group seek to maintain strict control over its outstanding receivables and has a credit control department for each segment to minimise credit risk. Overdue balances are reviewed regularly by senior management. As at 31 December 2017, the Group had a certain concentration of credit risk as 48% and 96% of the Group's trade receivables were due from the Group's largest customer and the five largest customers in relation to revenue recognised in 2016, respectively. As at 31 December 2017, an aggregate amount of HK$1,585 million of the trade receivables were secured by charge over the shares and convertible bonds of CCT Land and share charge over certain equity interests.

Subsequent to the end of the reporting period, trade receivables with an aggregate amount of HK$1,284 million were settled by certain customers on 3 January 2018 (note 51) and the date of repayment of the remaining amount of HK$301 million due from a customer was extended to 31 December 2018. This amount is secured by a share charge over certain equity interests.

As at 31 December 2016, the Group had a certain concentration of credit risk as 47% and 95% of the Group's trade receivables were due from the Group's largest customer and the five largest customers, respectively, and an aggregate amount of HK$1,729 million of the trade receivables were secured by a charge over the shares and convertible bonds of CCT Land and a share charge over certain equity interests. Save as mentioned above, the Group does not hold any collateral or other credit enhancement over its trade receivables balances. Trade receivables are non-interest-bearing.

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

| | **2017** | | 2016 | |
|---|---|---|---|---|
| HK$ million | **Balance** | **Percentage** | Balance | Percentage |
| Within 30 days | **1,620** | **97** | 1,117 | 62 |
| 31 to 60 days | **18** | **1** | 23 | 1 |
| 61 to 90 days | **15** | **1** | 14 | 1 |
| Over 90 days | **8** | **1** | 658 | 36 |
| | **1,661** | **100** | 1,812 | 100 |

## 25. TRADE RECEIVABLES *(continued)*

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

| HK$ million | 2017 | 2016 |
|---|---|---|
| At 1 January | **2** | – |
| Impairment losses recognised | **1** | 2 |
| At 31 December | **3** | 2 |

Included in the above provision for impairment of trade receivables is a provision for individually impaired trade receivables of HK$3 million (2016: HK$2 million) with a carrying amount before provision of HK$5 million (2016: HK$2 million). The individually impaired trade receivables relate to customers that were in financial difficulties and only a portion of the receivables is expected to be recovered.

The ageing analysis of the trade receivables that are not considered to be impaired is as follows:

| HK$ million | 2017 | 2016 |
|---|---|---|
| Neither past due nor impaired | **1,634** | 1,792 |
| Past due but not impaired — within 6 months | **25** | 20 |
| | **1,659** | 1,812 |

Receivables that were neither past due nor impaired relate to customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

## 26. INVESTMENT IN FILMS

| HK$ million | 2017 | 2016 |
|---|---|---|
| Investment in films | **59** | 11 |

As at 31 December 2017, investment in films of HK$59 million (2016: HK$11 million) was unsecured, had a minimum guaranteed return of 70% to 80% for the amount invested and had no fixed terms of repayment. This investment is governed by the relevant agreements entered into between the Group and other investors whereby the Group is entitled to benefit generated from the distribution of the related films. Since the amount is expected to be recovered by the Group within one year, the amount was classified as a current financial asset at 31 December 2017.

### 27. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| HK$ million | 2017 | 2016 |
|---|---|---|
| Prepayments | **21** | 17 |
| Deposits and other receivables | **136** | 84 |
| | **157** | 101 |
| Current portion | **(140)** | (90) |
| Non-current portion | **17** | 11 |

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

As at 31 December 2017, included in the Group's deposits and other receivables were amounts due from certain independent third parties and a non-controlling shareholder of HK$19 million (2016: HK$12 million), which are secured by collateral provided to the Group on certain commercial properties located in Hong Kong owned by the independent third parties.

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

| HK$ million | 2017 | 2016 |
|---|---|---|
| Fund investments, at fair value | **–** | 18 |
| Insurance policy, at fair value | **3** | – |
| | **3** | 18 |

The insurance policy at 31 December 2017 was classified as held for trading.

## 29. CASH AND CASH EQUIVALENTS AND PLEDGED TIME DEPOSITS

| HK$ million | 2017 | 2016 |
|---|---|---|
| Cash and bank balances | **131** | 212 |
| Time deposits | **28** | – |
| | **159** | 212 |
| Less: Time deposits pledged for banking facilities included in current portion (note 32(b)(v)) | **(28)** | – |
| Cash and cash equivalents | **131** | 212 |

At the end of the reporting period, the cash and cash equivalents and pledged time deposits of the Group denominated in RMB amounted to HK$19 million (2016: HK$3 million). The RMB is not freely convertible into other currencies, however, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and one month depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

## 30. TRADE PAYABLES

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

| | 2017 | | 2016 | |
|---|---|---|---|---|
| HK$ million | Balance | Percentage | Balance | Percentage |
| Current to 30 days | **26** | **58** | 22 | 76 |
| 31 to 60 days | **10** | **22** | 3 | 10 |
| 61 to 90 days | **3** | **7** | 1 | 4 |
| Over 90 days | **6** | **13** | 3 | 10 |
| | **45** | **100** | 29 | 100 |

The trade payables are non-interest-bearing, unsecured and are normally settled on 60-day term.

## 31. OTHER PAYABLES AND ACCRUALS

| HK$ million | 2017 | 2016 |
|---|---|---|
| Other payables | **71** | 72 |
| Accruals | **24** | 28 |
| | **95** | 100 |

Other payables are non-interest-bearing and have an average term of three months.

## 32. INTEREST-BEARING BANK AND OTHER BORROWINGS

| | **2017** | | | 2016 | | |
|---|---|---|---|---|---|---|
| | **Effective interest rate (%)** | **Maturity** | **HK$ million** | Effective interest rate (%) | Maturity | HK$ million |
| **Current** | | | | | | |
| Finance lease payable (note 34) | **1.90–3.82** | **2018** | **3** | 1.80–3.79 | 2017 | 4 |
| Bank loans — secured | **1.74–3.49** | **2018 or on demand** | **448** | 1.43–3.18 | 2017 or on demand | 379 |
| Other loan — secured | **1.90** | **2018** | **5** | – | – | – |
| | | | **456** | | | 383 |
| **Non-current** | | | | | | |
| Finance lease payable (note 34) | **1.90–3.82** | **2019–2021** | **6** | 1.80–3.79 | 2018–2019 | 6 |
| Bank loans — secured | **1.74–3.49** | **2019–2031** | **890** | 1.43–3.18 | 2018–2031 | 848 |
| | | | **896** | | | 854 |
| | | | **1,352** | | | 1,237 |

## 32. INTEREST-BEARING BANK AND OTHER BORROWINGS *(continued)*

| HK$ million | 2017 | 2016 |
|---|---|---|
| Analysed into: | | |
| Bank loans repayable: | | |
| Within one year or on demand | **448** | 379 |
| In the second year | **117** | 98 |
| In the third to fifth years, inclusive | **395** | 415 |
| Beyond five years | **378** | 335 |
| | **1,338** | 1,227 |
| Other borrowings repayable: | | |
| Within one year or on demand | **8** | 4 |
| In the second year | **4** | 3 |
| In the third to fifth years, inclusive | **2** | 3 |
| | **14** | 10 |
| | **1,352** | 1,237 |

(a) The Group's trading line banking facilities amounted to HK$35 million (2016: HK$53 million), of which HK$18 million (2016: HK$14 million) has been utilised as at the end of the reporting period.

(b) As at 31 December 2017, certain of the Group's bank loans were secured by:

(i) pledge of certain leasehold land and buildings of the Group situated in Hong Kong, which had an aggregate carrying amount at the end of the reporting period of approximately HK$750 million (2016: HK$750 million) (note 13);

(ii) pledge of the Group's investment properties situated in Hong Kong, which had an aggregate carrying amount at the end of the reporting period of approximately HK$1,456 million (2016: HK$1,179 million) (note 14);

(iii) pledge of certain stock of properties held for sale of the Group situated in Hong Kong, which had an aggregate carrying amount at the end of the reporting period of approximately HK$274 million (2016: HK$337 million) (note 22);

(iv) pledge of certain inventories of the Group, which had an aggregate carrying amount at the end of the reporting period of approximately HK$6 million (2016: Nil) (note 21); and

(v) pledge of certain time deposits of the Group with an aggregate amount of HK$28 million (2016: Nil) (note 29).

(c) Other than certain bank borrowings with a carrying amount of HK$2 million denominated in US dollars as at 31 December 2017 (2016: nil), all bank and other borrowings of the Group were denominated in Hong Kong dollars as at 31 December 2017 and 2016.

## 33. CONVERTIBLE BONDS

On 30 March 2016, the Company issued the 5% coupon convertible bonds (the "2024 Convertible Bonds") with an aggregate principal amount of HK$250,200,000 to Capital Force International Limited ("Capital Force") and New Capital Industrial Limited ("New Capital") and on 3 June 2016, the Company issued the 1.5% coupon convertible bonds (the "2018 Convertible Bonds") with an aggregate principal amount of HK$100,000,000 to Top Pride Limited. Details of these convertible bonds are set out as follows:

### (a) 2024 Convertible Bonds

On 30 March 2016, pursuant to the sale and purchase agreement dated 27 January 2016 (as amended by the supplemental agreement dated 17 February 2016) entered into between Mr. Mak as vendor and the Company as purchaser in respect of acquisition from Mr. Mak of the entire issued share capital of the companies which hold the properties situated at House 38 and House 39, No. 56 Repulse Bay Road, Repulse Bay, Hong Kong, the Company issued the 2024 Convertible Bonds with an aggregate principal amount of HK$250,200,000 of which principal amount of HK$180,000,000 and HK$70,200,000 was issued to Capital Force and New Capital, respectively. The maturity date of the 2024 Convertible Bonds will fall on the eight anniversary of the date of issue of the 2024 Convertible Bonds, which will fall due on 30 March 2024. The bonds are convertible at the option of the bondholders into ordinary shares at initial conversion price of HK$0.90 per conversion share (subject to adjustments pursuant to the terms and conditions of the convertible bonds) and the bonds shall be redeemable at the option of the Company at any time on or before 30 March 2024. The 2024 Convertible Bonds are unsecured, carry interest at 5% per annum on the outstanding principal amount. Interest is payable monthly.

The 2024 Convertible Bonds were split into liability and equity components upon initial recognition by recognising the liability component at fair value and attributing to the equity component the residual amount. The fair value of the liability component of these convertible bonds were estimated at the issuance date using cash flows discounted at a rate based on effective interest rate of 6.57%. The residual amount was assigned as the equity component and was included in shareholders' equity. The fair value of the 2024 Convertible Bonds was determined as of the date of issue by reference to the valuations performed by an independent firm of professionally qualified valuers, Greater China Appraisal Limited. The liability component and equity component is remeasured at amortised cost and not remeasured, respectively, subsequent to the initial recognition.

The conversion price of the 2024 Convertible Bonds was adjusted from HK$0.90 to HK$0.87, from H$0.87 to HK$0.84 and then from HK$0.84 to HK$0.78 per conversion share on 1 June 2016, 15 September 2016, and 18 September 2017, respectively pursuant to the terms and conditions of the convertible bonds.

During the year ended 31 December 2017, there was no conversion or movement of the 2024 Convertible Bonds.

## 33. CONVERTIBLE BONDS *(continued)*

### (b) 2018 Convertible Bonds

On 3 June 2016, pursuant to the subscription agreement entered into between Top Pride Limited, an independent third party, as subscriber and the Company as issuer in respect of subscription and issue of the 2018 Convertible Bonds, the Company issued the 2018 Convertible Bonds with an aggregate principal amount of HK$100 million for cash. The maturity date of the 2018 Convertible Bonds will fall on the second anniversary of the date of issue of the convertible bonds, which will fall due on 3 June 2018. The bonds are convertible at the option of the bondholders into ordinary shares at the conversion price of HK$1.10 per conversion share (subject to adjustment pursuant to the terms and conditions of the convertible bonds) during the period from the issue date to the date immediately prior to the first anniversary of the issue date, and HK$1.20 per conversion share (subject to adjustment pursuant to the terms and conditions of the convertible bonds) during the period from the date falling on the first anniversary of the issue date to the date falling on the third business days prior to the maturity date of the 2018 Convertible Bonds. The 2018 Convertible Bonds are unsecured and carry interest at 1.5% per annum on the outstanding principal amount. Interest is payable semi-annually.

The fair value of the 2018 Convertible Bonds was estimated at the issuance date using cash flows discounted at a rate based on effective interest rate of 3.68%. The total fair value of the 2018 Convertible Bonds was classified as a liability for accounting purposes. The fair value of the 2018 Convertible Bonds was determined as of the date of issue and at the end of the reporting period by reference to the valuations performed by an independent firm of professionally qualified valuers, Greater China Appraisal Limited.

During the year ended 31 December 2016, convertible bonds with a principal amount of HK$50 million were converted into 45,454,545 ordinary shares of the Company, resulting in an additional issued capital of HK$5 million and share premium of HK$45 million.

During the year ended 31 December 2017, there was no conversion or movement of the 2018 Convertible Bonds.

The convertible bonds were split into the liability and equity components as follows:

| HK$ million | 2017 | 2016 |
|---|---|---|
| Nominal value of convertible bonds | **302** | 350 |
| Equity component | **(22)** | (22) |
| Liability component | **280** | 328 |
| Conversion of convertible bonds | **–** | (50) |
| Interest expense | **16** | 11 |
| Interest paid | **(14)** | (9) |
| Liability component at 31 December | **282** | 280 |
| Portion classified as current liabilities | **(50)** | – |
| Non-current portion | **232** | 280 |

## 34. FINANCE LEASE PAYABLES

The Group leased certain of its motor vehicles for business use. At the end of the reporting period, these leases were classified as finance leases and had remaining leases of four years. The total future minimum lease payments under finance leases and their present values were as follows:

| HK$ million | **Minimum lease payments 2017** | Minimum lease payments 2016 | **Present value of minimum lease payments 2017** | Present value of minimum lease payments 2016 |
|---|---|---|---|---|
| Amounts payable: | | | | |
| Within one year | **3** | 4 | **3** | 3 |
| In the second year | **4** | 3 | **4** | 3 |
| In the third to fifth years | **2** | 3 | **2** | 3 |
| Total minimum finance lease payments | **9** | 10 | **9** | 9 |
| Future finance charges | **–** | – | | |
| Total net finance lease payables | **9** | 10 | | |
| Portion classified as current liabilities (note 32) | **(3)** | (4) | | |
| Non-current portion (note 32) | **6** | 6 | | |

## 35. DEFERRED TAX

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

**Deferred tax liabilities**

| HK$ million | Depreciation allowances in excess of related depreciation | Revaluation of properties | Total |
|---|---|---|---|
| Gross deferred tax liabilities at 1 January 2016 | – | 38 | 38 |
| Acquisition of a subsidiary (note 40) | 4 | – | 4 |
| Gross deferred tax liabilities at 31 December 2016 and 1 January 2017 | 4 | 38 | 42 |
| Deferred tax credited to the statement of profit or loss during the year (note 10) | **–** | **(4)** | **(4)** |
| Gross deferred tax liabilities at 31 December 2017 | **4** | **34** | **38** |

**Deferred tax assets**

At 31 December 2017, the Group had tax losses of HK$408 million (2016: HK$211 million), which were available indefinitely for offsetting against future taxable profits of the companies in which the losses arose, for which, no deferred tax assets were recognised in respect of these losses as it was not considered probable that taxable profits would be available against which the tax losses could be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in Mainland China. The requirement is effective from 1 January 2008 and applies to earnings generated after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between Mainland China and jurisdiction of the foreign investors. The applicable rate for the Group is 5%. Therefore, the Group would be liable for withholding taxes on dividends distributed by those subsidiaries established in Mainland China in respect of earnings generated from 1 January 2008.

As 31 December 2017 and 2016, no unremitted earnings was noted, and thus no deferred tax was recognised for withholding taxes which would be payable on the unremitted earnings that were subject to withholding taxes of the Group's subsidiaries established in the Mainland China.

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

## 36. SHARE CAPITAL

### Shares

| HK$ million | 2017 | 2016 |
|---|---|---|
| Authorised: | | |
| 2,000,000,000 (2016: 2,000,000,000) ordinary shares of HK$0.10 each | **200** | 200 |
| Issued and fully paid: | | |
| 875,381,452 (2016: 877,849,452) ordinary shares of HK$0.10 each | **88** | 88 |

A summary of movements in the Company's share capital is as follows:

| | Number of ordinary shares of HK$0.10 each in issue | Issued capital HK$ million | Share premium account HK$ million | Total HK$ million |
|---|---|---|---|---|
| At 1 January 2016 | 832,394,907 | 83 | 181 | 264 |
| Conversion of convertible bond | 45,454,545 | 5 | 45 | 50 |
| At 31 December 2016 and 1 January 2017 | 877,849,452 | 88 | 226 | 314 |
| Shares repurchased (note a) | **(2,468,000)** | **–** | **(2)** | **(2)** |
| At 31 December 2017 | **875,381,452** | **88** | **224** | **312** |

Note:

(a) During the year, the Company repurchased a total of 2,468,000 of its ordinary shares in December 2017 for an aggregate consideration of approximately HK$2 million. These shares were subsequently cancelled by the Company during the year.

### Share options

Details of the Group's share option scheme are detailed in note 37 to the financial statements.

## 37. SHARE OPTION SCHEMES OF THE GROUP

### Share option scheme of the Company

At the annual general meeting ("AGM") of the Company held on 27 May 2011, the Shareholders approved the adoption of the 2011 Scheme (the "2011 Scheme"). The 2011 Scheme has become effective since 30 May 2011, the date on which the Listing Committee of the Stock Exchange granted approval for the listing of, and permission to deal in, any shares of the Company (the "Shares") on the Stock Exchange, which may fall to be allotted and issued by the Company pursuant to the exercise of the share options in accordance with the terms and conditions of the 2011 Scheme. Unless otherwise cancelled or amended, the 2011 Scheme will be valid for a period of 10 years from the date of its adoption.

The purpose of the 2011 Scheme is to enable the Company to grant share options to the eligible participants, as incentives and/or rewards for their contribution to the Group and/or any entity in which any member of the Group holds any equity interest ("Invested Entity") or the holding company of the Company (if applicable). Eligible participants of the 2011 Scheme include:

(a) any director or proposed director (whether executive or non-executive and whether independent or not), any executive, officer, employee or any person to whom any offer of employment has been made, executive or officer (whether full-time or part-time, on an employment or contractual or honorary basis or otherwise and whether paid or unpaid) of any member of the Group, any Invested Entity or the holding company of the Company (if applicable);

(b) any supplier or provider of goods and/or services, professional, consultant, agent, contractor, adviser, customer, partner, business associate or shareholder of any member of the Group, any Invested Entity or the holding company of the Company (if applicable), or any holder of any securities issued or proposed to be issued by any member of the Group, any Invested Entity or the holding company of the Company (if applicable), who, in the sole discretion of the Board, will contribute or has contributed to the Group, the Invested Entity or the holding company of the Company (if applicable); and

(c) any person whom the Board at its sole discretion considers, will contribute or has contributed to any members of the Group, the Invested Entity or the holding company of the Company (if applicable) (as the case may be).

Pursuant to the 2011 Scheme, the maximum number of Shares which may be issued upon exercise of all share options to be granted under the 2011 Scheme and any other share option scheme(s) of the Company must not exceed 10% of the total number of Shares in issue as at the date of adoption of the 2011 Scheme. Shares which would have been issuable pursuant to the share options which have lapsed or cancelled in accordance with the terms of such share option scheme(s) will not be counted for the purpose of the 10% limit. Notwithstanding the foregoing, Shares which may be issued upon exercise of all outstanding share options granted and yet to be exercised under the 2011 Scheme and any other share option scheme(s) of the Company at any time shall not exceed 30% of the total number of the Shares in issue from time to time. No share option shall be granted under any scheme(s) of the Company or any of its subsidiaries if this will result in the 30% limit being exceeded. As at the date of approval of this annual report, the total number of share options available for grant under the 2011 Scheme is 60,614,490, which represents 6.92% of the total issued share capital of the Company as at the date of approval of these financial statements.

**37. SHARE OPTION SCHEMES OF THE GROUP** *(continued)*

**Share option scheme of the Company** *(continued)*

The total number of Shares issued and which may fall to be issued upon exercise of the share options granted under the 2011 Scheme and any other share option scheme(s) of the Company (including exercised, cancelled and outstanding share options) to each eligible participant in any 12-month period up to the date of grant shall not exceed 1% of the total number of Shares in issue as at the date of grant. Any further grant of the share options in excess of this 1% limit shall be subject to the issue of a circular by the Company and the approval of the Shareholders at a general meeting with such eligible participant and his/her associates abstaining from voting and/or other requirements prescribed under the Listing Rules from time to time.

Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their respective associates, are subject to approval in advance by the independent non-executive director(s) ("INED(s)") of the Company, excluding the INED(s) of the Company who is/are the grantee(s) of the share options. In addition, any share option granted to a substantial shareholder or an INED of the Company, or to any of their respective associates, in excess of 0.1% of the total number of Shares in issue as at the date of grant or with an aggregate value (based on the closing price of the Shares as at the date of grant) in excess of HK$5 million, within any 12-month period, is subject to the issue of a circular by the Company and the approval of the Shareholders in advance at a general meeting.

The offer of a grant of the share options may be accepted within 28 days from the date of offer, upon payment of a nominal consideration of HK$1 in total by the grantee. The exercise period of the share options granted is determinable by the Board, and commences on a specified date and ends on a date which is not later than 10 years from the date of grant of the share options. There is no specific requirement under the 2011 Scheme that a share option must be held for any minimum period before it can be exercised, but the terms of the 2011 Scheme provide that the Board has the discretion to impose a minimum period at the time of grant of any particular share option.

The exercise price of the share options is determinable by the Board, but may not be less than the highest of:

(i) the closing price of the Shares as stated in the daily quotation sheet of the Stock Exchange on the date of grant, which must be a trading day (and for this purpose shall be taken to be the date of the Board meeting at which the Board proposes to grant the share options);

(ii) the average of the closing prices of the Shares as stated in the daily quotation sheets of the Stock Exchange for the five trading days immediately preceding the date of grant; and

(iii) the nominal value of a Share.

The Company's share options do not confer rights on the holders to dividends or to vote at the general meetings of the Company.

As at 31 December 2017, there was no share option outstanding under the 2011 Scheme. No share option was granted, exercised, cancelled or has lapsed under the 2011 Scheme during the year.

## 38. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on page 59 of the financial statements.

The Group's capital reserve was created from the reduction of the Company's share capital which became effective on 7 August 2002.

## 39. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS

Details of the Group's subsidiaries that have material non-controlling interests are set out below:

| | **2017** | 2016 |
|---|---|---|
| Percentage of equity interest held by non-controlling interests: | | |
| AHM | **30%** | 30% |
| HHL | **49%** | 49% |

| HK$ million | **2017** | 2016 |
|---|---|---|
| Profit for the year allocated to non-controlling interests: | | |
| AHM | **–** | 5 |
| HHL | **4** | 4 |
| Accumulated balances of non-controlling interests at the reporting date: | | |
| AHM | **15** | 15 |
| HHL | **9** | 5 |

## 39. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS *(continued)*

The following tables illustrate the summarised financial information of the above subsidiaries. The amounts disclosed are before any inter-company eliminations:

| **2017** | **AHM HK$ million** | **HHL HK$ million** |
|---|---|---|
| Revenue | **149** | **50** |
| Total expenses | **149** | **41** |
| Profit for the year | **–** | **9** |
| Total comprehensive income for the year | **–** | **9** |
| Current assets | **35** | **26** |
| Non-current assets | **70** | **5** |
| Current liabilities | **50** | **13** |
| Non-current liabilities | **4** | **–** |
| Net cash flows from operating activities | **2** | **10** |
| Net cash flows used in investing activities | **(11)** | **–** |
| Net cash flows used in financing activities | **(5)** | **–** |
| Net (decrease)/increase in cash and cash equivalents | **(14)** | **10** |

| 2016 | AHM HK$ million | HHL HK$ million |
|---|---|---|
| Revenue | 88 | 33 |
| Total expenses | (74) | (22) |
| Profit for the year | 14 | 11 |
| Total comprehensive income for the year | 14 | 11 |
| Current assets | 35 | 20 |
| Non-current assets | 32 | – |
| Current liabilities | 16 | 7 |
| Non-current liabilities | 5 | – |
| Net cash flows from operating activities | 9 | 4 |
| Net cash flows used in investing activities | (4) | – |
| Net cash flows used in financing activities | (1) | – |
| Net increase in cash and cash equivalents | 4 | 4 |

## 40. BUSINESS COMBINATIONS

On 30 March 2016, the Group acquired 70% equity interest in AHM from an independent third party. AHM is engaged in the provision and leasing of audio and lighting equipment and services for concerts and entertainment events. The purchase consideration of HK$62 million for the acquisition was satisfied by cash. The Group has elected to measure the non-controlling interest in AHM at the non-controlling interest's proportionate share of AHM's identifiable net assets.

On 12 July 2016, AHM acquired 73% equity interest in HHL from independent third parties. HHL is engaged in the stage engineering work and services for concert and entertainment events. The purchase consideration of HK$28 million for the acquisition was satisfied by cash. The Group has elected to measure the non-controlling interest in HHL at the non-controlling interest's proportionate share of HHL's identifiable net assets.

On 2 October 2016, the Group acquired the audio and lighting equipment and the business of the event production in Macau ("ALM") from independent third parties. The purchase consideration of HK$43 million for the acquisition was satisfied by cash.

On 30 September 2016, the Group acquired a 100% interest in Suremark Holdings Limited ("Suremark") from CCT Land. Suremark and its subsidiaries are engaged in the trading of child products. The purchase consideration of HK$24 million for the acquisition was satisfied by set off of an interest-free loan owed by CCT Land to the Company of HK$24 million.
The fair values of the identifiable assets and liabilities of AHM, HHL, ALM and Suremark as at the date of acquisition were as follows:

| | Fair value recognised on acquisition | | | | |
|---|---|---|---|---|---|
| HK$ million | AHM and ALM | HHL | Suremark | Others | Total |
| Property, plant and equipment | 51 | – | – | – | 51 |
| Inventories | – | – | 3 | – | 3 |
| Trade receivables | 10 | 6 | 25 | 9 | 50 |
| Prepayments, deposits and other receivables | 3 | – | – | 2 | 5 |
| Investment in an associate | – | – | – | 13 | 13 |
| Cash and cash equivalents | 8 | 1 | 10 | 2 | 21 |
| Trade payables | (3) | (1) | – | (8) | (12) |
| Other payables and accruals | (5) | (2) | – | (18) | (25) |
| Finance lease payable | (3) | – | – | – | (3) |
| Interest-bearing bank and other borrowings | (3) | – | (14) | – | (17) |
| Deferred tax liabilities | (4) | – | – | – | (4) |
| | 54 | 4 | 24 | – | 82 |
| Non-controlling interests | (10) | (1) | – | – | (11) |
| Goodwill on acquisition (note 15) | 61 | 25 | – | – | 86 |
| | 105 | 28 | 24 | – | 157 |
| Satisfied by: | | | | | |
| Cash consideration | 105 | 28 | – | – | 133 |
| Set-off of an interest-free loan | – | – | 24 | – | 24 |
| | 105 | 28 | 24 | – | 157 |

## 40. BUSINESS COMBINATIONS *(continued)*

An analysis of the cash flows in respect of the acquisitions of AHM, HHL, ALM and Suremark as at the date of acquisition were as follows:

| HK$ million | AHM and ALM | HHL | Suremark | Others | Total |
|---|---|---|---|---|---|
| Cash and cash equivalents acquired | 8 | 1 | 10 | 2 | 21 |
| Other payable | – | 11 | – | – | 11 |
| Net (outflow)/inflow of cash and cash equivalents included in cash flows from investing activities | (97) | (16) | 10 | 2 | (101) |

The Group incurred transaction costs of HK$4 million for these acquisitions, which were expensed and included in administrative expenses in the consolidated statement of profit or loss in the previous year.

Included in the goodwill of HK$61 million and HK$25 million in AHM and ALM and HHL recognised above were customer lists, which were not recognised separately. As the lists are subject to a confidentiality agreement, they are not separable and as such, they do not meet the criteria for recognition as an intangible asset under HKAS 38 Intangible Assets. None of the goodwill recognised is expected to be deductible for income tax purposes.

Since the acquisition, AHM and ALM, HHL and Suremark contributed HK$118 million, HK$25 million and HK$25 million to the Group's revenue, respectively, and profit of HK$19 million, HK$8 million and loss of HK$1 million to the Group's consolidated profit for the year ended 31 December 2016, respectively.

Had the business combinations taken place at the beginning of 2016, the revenue of the Group and the profit of the Group would have been HK$1,117 million and HK$344 million, respectively for the year ended 31 December 2016.

## 41. ACQUISITION OF A SUBSIDIARY THAT IS NOT A BUSINESS

On 27 January 2016, the Company entered into an agreement with Mr. Mak, under which Mr. Mak agreed to sell and the Company agreed to acquire the entire equity interest and shareholder's loans in Capital Top Industrial Limited and Next Capital Investments Limited (collectively, the "Property Groups"), at an aggregate consideration of approximately HK$250 million, satisfied by issue of convertible bonds of Company and a cash consideration of HK$29 million for assignment of the shareholder's loans, which were due by the Property Groups to Mr. Mak on the date of completion of the transaction. Details of the acquisition are set out in note 33(a) to the financial statements. As the Property Groups did not carry out any significant business activities except for holding two properties, the acquisition was accounted for by the Group as an asset acquisition in 2016.

The net assets acquired by the Group in the above transaction are as follows:

| HK$ million | 2016 |
|---|---|
| Net assets and liabilities acquired: | |
| Investment property (note 14) | 434 |
| Interest-bearing bank borrowings | (155) |
| | 279 |

| HK$ million | 2016 |
|---|---|
| Satisfied by convertible bonds (note 33(a)) | (250) |
| Cash consideration | (29) |
| | (279) |

An analysis of the net cash outflow of cash and cash equivalents in respect of the asset acquisition is as follows:

| | |
|---|---|
| Net outflow of cash and cash equivalents included in cash flows from investing activities | (29) |

The Group incurred transaction costs of HK$1 million for this acquisition, which were expensed and included in administrative expenses in the consolidated statement of profit or loss for the year ended 31 December 2016.

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

### (a) Major non-cash transaction

On 27 January 2016, the Company entered into an agreement with Mr. Mak, under which Mr. Mak agreed to sell and the Company agreed to acquire the entire equity interest in the Property Groups at an aggregate consideration of approximately HK$250 million, satisfied by issue of convertible bonds of Company. Details of the acquisition are set out in note 41 to the financial statements.

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

| HK$ million | Bank and other loans | Finance lease payables | Convertible bonds |
|---|---|---|---|
| At 1 January 2017 | 1,227 | 10 | 280 |
| Changes from financing cash Flows | 116 | (1) | – |
| Interest expense | 39 | – | 16 |
| Interest paid classified as operating cash flows | (39) | – | (14) |
| At 31 December 2017 | 1,343 | 9 | 282 |

## 43. CONTINGENT LIABILITIES

At the end of the reporting period, contingent liabilities not provided for in the financial statements were as follows:

### (a) Financial guarantees

| HK$ million | 2017 | 2016 |
|---|---|---|
| Corporate guarantees given to banks in connection with facilities granted to the CCT Land Group (note (i)) | **146** | 134 |
| Performance guarantee in respect of payment obligations of a subsidiary (note (ii)) | **35** | – |

(i) As at 31 December 2017, the banking facilities granted to the CCT Land Group subject to corporate guarantees given to the banks by the Company were utilised to the extent of approximately HK$73 million (2016: HK$93 million).

(ii) As at 31 December 2017, the Group had contingent liabilities in connection with performance guarantee provided by a bank on behalf of a subsidiary of the Company in respect of the payment obligation of the subsidiary for an amount not exceeding HK$35 million.

(iii) In determining whether financial liabilities should be recognised in respect of the Group's financial guarantee contracts, the directors of the Company exercise judgement in the evaluation of the probability of resources outflow that will be required and the assessment of whether a reliable estimate can be made of the amount of the obligation.

In the opinion of the directors of the Company, the fair values of the financial guarantee contracts of the Group are insignificant at initial recognition and the Directors consider that the possibility of the default of the parties involved is remote, and accordingly, no value has been recognised in the financial statements.

### (b) Litigations

During 2017 and in or about February 2018, various property purchasers initiated legal proceedings against a subsidiary of the Company (the "Relevant Subsidiary") concerning alleged misrepresentations on the part of the Relevant Subsidiary in relation to certain properties sold by the Relevant Subsidiary. The Relevant Subsidiary has filed acknowledgement of service contesting these proceedings and its defences. Based on the existing legal documents and advice of the legal advisor of the Company, the directors of the Company are of the opinion that there is a reasonably good chance of success in the defence of these cases of the Relevant Subsidiary. In the opinion of the directors of the Company, no provision is considered necessary for the claims arising from the legal proceedings at the end of the reporting period.

## 44. PLEDGE OF ASSETS

Details of the Group's assets pledged for the Group's bank loans are included in note 32(b) to the financial statements.

## 45. OPERATING LEASE ARRANGEMENTS

### (a) As lessor

The Group leases its investment properties under operating lease arrangements with leases negotiated for terms ranging from two to three years.

The Group had total future minimum lease receivables under non-cancellable operating leases with its tenants falling due as follows:

| HK$ million | **2017** | 2016 |
|---|---|---|
| Within one year | **7** | 15 |
| In the second to fifth years, inclusive | **1** | 7 |
| | **8** | 22 |

### (b) As lessee

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

The Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

| HK$ million | **2017** | 2016 |
|---|---|---|
| Within one year | **29** | 6 |
| In the second to fifth years, inclusive | **89** | – |
| | **118** | 6 |

## 46. COMMITMENTS

In addition to the operating lease commitments detailed in note 45 above, as at 31 December 2017, the Group had contracted, but not provided for capital commitment of approximately HK$102 million (2016: HK$97 million).

## 47. RELATED PARTY TRANSACTIONS

(a) In addition to the transactions and balances detailed elsewhere in these financial statements, the Group had the following material transactions with related parties during the reporting period.

| HK$ million | Notes | 2017 | 2016 |
|---|---|---|---|
| Sales of components to the CCT Land Group | (i) | **59** | 83 |
| Factory rental expenses paid to the CCT Land Group | (ii) | **4** | 6 |
| Office rental income from the CCT Land Group | (iii) | **1** | 1 |
| Management information system service expense paid to the CCT Land Group | (iv) | **6** | 6 |
| Purchase of child products from CCT Land Group | (v) | **142** | 20 |
| Acquisition of Suremark from CCT Land Group | (vi) | **–** | 24 |
| Acquisition of the Property Group and issue of the 2024 Convertible Bonds | (vii) | **–** | 250 |
| Assignment of the shareholder’s loan | (vii) | **–** | 29 |
| Interest expense on the 2024 Convertible Bonds | (vii) | **15** | 11 |
| Office rental income from a company controlled by a key management personnel of the Group | (viii) | **1** | 1 |
| Consultancy fee paid to a company controlled by a key management personnel of the Group | (ix) | **–** | 1 |
| Rental income on investment properties | (x) | **6** | 5 |

## 47. RELATED PARTY TRANSACTIONS *(continued)*

### (a) *(continued)*

Notes:

(i) The components were sold by a wholly-owned subsidiary of the Company to the CCT Land Group, based on the terms and conditions of a manufacturing agreement dated 9 November 2015 (the "Component Manufacturing Agreement") entered into between the Company and CCT Land. The Component Manufacturing Agreement has a term of three years from 1 January 2016 to 31 December 2018, pursuant to which the Company agreed to manufacture and supply through the Group certain plastic casings, components and any other component products and toolings to the CCT Land Group for the production of telecom and electronic products. The selling prices of plastic casings, components and any other component products were determined based on direct material costs plus a mark-up of no more than 250%. The tooling charges for the production of telecom and electronic products for the CCT Land Group were determined based on the total costs plus a mark-up of no more than 50%.

(ii) The factory rental expenses was charged to Shine Best Developments Limited ("Shine Best"), an indirect wholly-owned subsidiary of the Company, by CCT Enterprise Limited ("CCT Enterprise"), a former indirect wholly-owned subsidiary of CCT Land, for the period from 1 January 2017 to 11 August 2017 (2016: for the year ended 31 December 2016), in respect of the provision of factory space in Huiyang City, Guangdong Province, the PRC, at a rent determined in accordance with the terms and conditions set out in a tenancy agreement dated 10 December 2014 entered into between Shine Best and CCT Enterprise, which had a lease term of three years from 1 January 2015 to 31 December 2017. Following completion of the deemed disposal of CCT Enterprise by CCT Land to an independent third party on 11 August 2017, CCT Enterprise ceased to be a subsidiary of CCT Land and as such, the lease of the factory between CCT Enterprise and Shine Best no longer constitutes a related party transaction of the Company.

(iii) The office rental income was charged to CCT Land by Goldbay Investments Limited ("Goldbay"), an indirect wholly-owned subsidiary of the Company, in respect of the provision of office space in Hong Kong, at a rent determined in accordance with the terms and conditions set out in the tenancy agreement dated 10 December 2014 entered into between the CCT Land and Goldbay, which had a term of three years from 1 January 2015 to 31 December 2017.

(iv) The management information system service fee was charged by CCT Land to the Company for the provision of general management information system support, network and software consultation and hardware maintenance services. The fee was determined in accordance with the terms and conditions set out in the agreement dated 10 December 2014 entered into between the Company and CCT Land, which had a term of three years from 1 January 2015 to 31 December 2017.

(v) This represented transaction amount for the supply of feeding, health care, hygiene, safety, toy and other related products for infants and babies which were supplied by CCT Land Group to the Group during 2017, based on the agreements set out below. On 3 August 2016, CCT Tech Global Holdings Limited ("CCT Global"), a wholly-owned subsidiary of the CCT Land entered into a manufacturing agreement (the "Child Products Manufacturing Agreement") which had a term from 14 October 2016 (being the date on which the transaction as described in paragraph (vi) below was completed) to 31 December 2018. On 31 August 2016, 14 September 2016 and 4 October 2016, CCT Global and the Company entered into the first supplemental manufacturing agreement, the second supplemental manufacturing agreement and the third supplemental manufacturing agreement (collectively as the "Supplemental Manufacturing Agreements"), respectively, pursuant to which the parties thereto agreed to amend and supplement the pricing terms and policies of the Child Products Manufacturing Agreement. In respect of the transactions contemplated under the Child Products Manufacturing Agreement as amended and supplemented by the Supplemental Manufacturing Agreements, the price of the child products to be supplied by the CCT Land Group to the Group will be the higher of the sum of the direct material costs plus a mark-up of no more than 250% of the direct material costs and the selling prices that the Company sells to independent third parties less a discount of up to 10%.

(vi) On 30 September 2016, the Group acquired from CCT Land the entire equity interest of Suremark, which together with its subsidiaries are engaged in the trading of child products. The purchase consideration for the acquisition was HK$24 million, which was satisfied by set off of an interest-free loan then owed by CCT Land to the Company of HK$24 million. Details of the acquisition are set out in note 40 to the financial statements.

(vii) On 27 January 2016, the Company entered into the sale and purchase agreement with Mr. Mak to acquire all the issued shares of the Property Group from Mr. Mak and the shareholder's loans then due to Mr. Mak by the Property Groups for the share consideration of approximately HK$250 million and the cash consideration of approximately HK$29 million, respectively. Details of the acquisition are set out in notes 33(a) and note 41 to the financial statements. The aforesaid acquisition constituted non-exempt connected transactions for the Company under the Listing Rules. The share consideration was satisfied by the issue of the 2024 Convertible Bonds. During the year ended 31 December 2017, total interest of HK$13 million was paid by the Company on the 2024 Convertible Bonds, to Capital Force and New Capital.

(viii) The rental income was charged to Silly Thing Company Limited ("Silly Thing"), a company controlled by Mr. Mak Chun Kiu, son of Mr. Mak, by Cyber Profit, an indirect wholly-owned subsidiary of the Company, in respect of the re-lease of property, at rental determined in accordance with the terms and conditions set out in a tenancy agreement dated 19 June 2014 entered into between Cyber Profit and Silly Thing, which has a rental period of three years from 19 June 2014 to 18 June 2017. The tenancy agreement was renewed on 19 June 2017 by a new agreement for a term of three years from 19 June 2017 to 18 June 2020. The terms and conditions of the renewed agreement are similar to the previous agreement. The rental income received from Silly Thing constituted exempted continuing connected transaction for the Company under the Listing Rules.

## 47. RELATED PARTY TRANSACTIONS *(continued)*

(a) *(continued)*

Notes: *(continued)*

(ix) The consultancy fee was charged to Sino Famous (HK) Limited ("Sino Famous"), an indirect wholly-owned subsidiary of the Company, by Silly Thing, in respect of the provision of general administrative services provided to Sino Famous. The charge was determined on the same basis as those offered by Silly Thing to its major customers. The consultancy fee expenses constituted exempted continuing connected transactions for the Company under the Listing Rules.

(x) On 30 March 2016, two indirect wholly-owned subsidiaries of the Company entered into the tenancy agreements with Mr. Mak to lease the properties at House 38 and House 39, No. 56 Repulse Bay Road to Mr. Mak for a rental period from 30 March 2016 to 31 December 2017 at a monthly rental (inclusive of management fee and government rent and rates) of HK$270,000 and HK$260,000, respectively. The rental was determined based on market rental. The tenancy agreements were renewed on 6 December 2017 for another lease term of three years from 1 January 2018 to 31 December 2020, at the same rental and with similar terms and conditions as the previous tenancy agreements. The rental transactions constituted non-exempt continuing connected transactions for the Company under the Listing Rules. During the year ended 31 December 2017, rental income of approximately HK$6 million (2016: HK$5 million) in aggregate was charged to Mr. Mak.

(xi) The Company has complied with the relevant requirements under the Listing Rules in respect of the non-exempt connected transaction and continuing connected transactions set out in paragraphs (vii) and (x) above.

(b) Compensation of key management personnel of the Group

| HK$ million | **2017** | 2016 |
|---|---|---|
| Short term employee benefits | **30** | 48 |

Further details of directors' and the chief executive's emoluments are included in note 8 to the financial statements.

## 48. FINANCIAL INSTRUMENTS BY CATEGORY

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

**2017**

HK$ million

**Financial assets**

| | Financial assets at fair value through profit or loss — held for trading | Loans and receivables | Available-for-sale investments | Total |
|---|---|---|---|---|
| Available-for-sale investments | – | – | 113 | 113 |
| Trade receivables | – | 1,661 | – | 1,661 |
| Investment in films | – | 59 | – | 59 |
| Financial assets included in prepayments, deposits and other receivables | – | 157 | – | 157 |
| Financial assets at fair value through profit or loss | 3 | – | – | 3 |
| Pledged time deposit | – | 28 | – | 28 |
| Cash and cash equivalents | – | 131 | – | 131 |
| | 3 | 2,036 | 113 | 2,152 |

**Financial liabilities**

| | Financial liabilities at fair value through profit or loss — designated as such upon recognition | Financial liabilities at amortised cost | Total |
|---|---|---|---|
| Trade payables | – | 45 | 45 |
| Other payables and accruals | – | 95 | 95 |
| Interest-bearing bank and other borrowings | – | 1,352 | 1,352 |
| Convertible bonds | 50 | 232 | 282 |
| | 50 | 1,724 | 1,774 |

## 48. FINANCIAL INSTRUMENTS BY CATEGORY *(continued)*

2016

HK$ million

**Financial assets**

| | Financial assets at fair value through profit or loss — held for trading | Loans and receivables | Available-for-sale investments | Total |
|---|---|---|---|---|
| Available-for-sale investments | – | – | 96 | 96 |
| Trade receivables | – | 1,812 | – | 1,812 |
| Investment in films | – | 11 | – | 11 |
| Financial assets included in prepayments, deposits and other receivables | – | 101 | – | 101 |
| Financial assets at fair value through profit or loss | 18 | – | – | 18 |
| Cash and cash equivalents | – | 212 | – | 212 |
| | 18 | 2,136 | 96 | 2,250 |

**Financial liabilities**

| | Financial liabilities at fair value through profit or loss — designated as such upon recognition | Financial liabilities at amortised cost | Total |
|---|---|---|---|
| Trade payables | – | 29 | 29 |
| Other payables and accruals | – | 100 | 100 |
| Interest-bearing bank and other borrowings | – | 1,237 | 1,237 |
| Convertible bonds | 50 | 230 | 280 |
| | 50 | 1,596 | 1,646 |

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

The carrying amounts and fair values of the Group's financial instruments reasonably approximate to fair values.

Management has assessed that the fair values of cash and cash equivalents, pledged time deposits, time deposits with original maturity of more than three months, trade receivables, trade payables, financial assets included in prepayments, deposits and other receivables, financial liabilities included in other payables and accruals approximate to their carrying amounts largely due to the short term maturities of these instruments.

The Group's corporate finance team headed by the group finance director is responsible for determining the policies and procedures for the fair value measurement of financial instruments. The corporate finance team reports directly to the directors and the audit committee. At each reporting date, the corporate finance team analyses the movements in the values of financial instruments and determines the major inputs applied in the valuation. The valuation is reviewed and approved by the directors. The valuation process and results are discussed with the audit committee twice a year for interim and annual financial reporting.

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

The fair values of the interest-bearing bank and other borrowings have been calculated by discounting the expected future cash flows using rates currently available for instruments with similar terms, credit risk and remaining maturities. The Group's own non-performance risk for interest-bearing bank and other borrowings as at 31 December 2017 was assessed to be insignificant.

The fair values of unlisted available-for-sale equity investments have been estimated based on market prices of recent transactions of the investments. The fair values of classic cars carried at fair value have been estimated based on market prices of recent transactions of similar investments. The directors believe that the estimated fair values resulting from the recent market prices, and the related changes in fair values, and that they were the most appropriate values at the end of the reporting period.

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

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

**Fair value hierarchy**

| | Fair value measurement using | | | |
|---|---|---|---|---|
| HK$ million | **Quoted prices in active markets (Level 1)** | **Significant observable inputs (Level 2)** | **Significant unobservable inputs (Level 3)** | **Total** |
| ***Assets measured at fair value as at 31 December 2017:*** | | | | |
| Available-for-sale investments: | | | | |
| — unlisted equity investment, at fair value | **–** | **–** | **78** | **78** |
| — Other assets, at fair value | **4** | **–** | **–** | **4** |
| Financial assets at fair value through profit or loss | | | | |
| — Insurance policy, at fair value | **3** | **–** | **–** | **3** |
| | **7** | **–** | **78** | **85** |
| ***Assets measured at fair value as at 31 December 2016:*** | | | | |
| Available-for-sale investments: | | | | |
| — Other assets, at fair value | 4 | – | – | 4 |
| Financial assets at fair value through profit or loss | | | | |
| — Fund investment at fair value | 18 | – | – | 18 |
| | 22 | – | – | 22 |

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

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

**Fair value hierarchy** *(continued)*

| HK$ million | Fair value measurement using<br>Quoted prices in active markets (Level 1) | Significant observable inputs (Level 2) | Significant unobservable inputs (Level 3) | Total |
|---|---|---|---|---|
| ***Liabilities measured at fair value as at 31 December 2017:*** | | | | |
| Financial liabilities at fair value through profit or loss — 2018 Convertible Bonds | **–** | **–** | **50** | **50** |
| ***Liabilities measured at fair value as at 31 December 2016:*** | | | | |
| Financial liabilities at fair value through profit or loss — 2018 Convertible Bonds | – | – | 50 | 50 |

During the year ended 31 December 2017, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities (2016: Nil).

*Liabilities for which fair values are disclosed:*

| HK$ million | Fair value measurement using<br>Quoted prices in active markets (Level 1) | Significant observable inputs (Level 2) | Significant unobservable inputs (Level 3) | Total |
|---|---|---|---|---|
| **As at 31 December 2017** | | | | |
| Interest-bearing bank and other borrowings | **–** | **–** | **1,352** | **1,352** |
| As at 31 December 2016 | | | | |
| Interest-bearing bank and other borrowings | – | – | 1,237 | 1,237 |

## 50. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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

**Interest rate risk**

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's borrowings with floating interest rates. The Group operates at a low gearing ratio and as the market interest rates are stable and are maintained at a relatively low level, the Group's interest rate risk is not significant.

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

| | Increase/ (decrease) in basis points | Increase/ (decrease) in profit before tax HK$ million |
|---|---|---|
| **2017** | | |
| HK$ | **100** | **(13)** |
| HK$ | **(100)** | **13** |
| 2016 | | |
| HK$ | 100 | (10) |
| HK$ | (100) | 10 |

## 50. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

**Foreign currency risk**

The Group has transactional currency exposures. These exposures arise from sales or purchases by or expenditure of operating units in currencies other than the units' functional currencies. During the year, the Group did not use any financial instruments for hedging purposes.

A reasonably possible strengthening/(weakening) in the exchange rate of EURO against Hong Kong dollar of 12.34% would result in decrease/(increase) on the Group's profit before tax (due to changes in the fair value of monetary assets and liabilities) by HK$2 million in 2017.

**Credit risk**

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, available-for-sale investments and held-to-maturity debt securities, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

For the Group's trade receivables, since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentration of credit risk is managed by counterparty.

Certain of the Group's trade receivables, deposits and other receivables are secured by collaterals provided by independent third parties, details of which are described in notes 25 and 27 to the financial statements.

There is no significant concentration of credit risk in relation to the Group's financial assets, other than trade receivables. Further quantitative data in respect of the Group's exposure to credit risk arising from trade receivables are disclosed in note 25 to the financial statements.

## 50. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

### Liquidity risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, other interest-bearing loans and finance leases. In addition, banking facilities have been put in place for contingency purposes.

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments.

**As at 31 December 2017**

| HK$ million | Within one year or on demand | In the second year | In the third to fifth years, inclusive | Beyond five years | Total |
|---|---|---|---|---|---|
| Trade payables | 45 | – | – | – | 45 |
| Other payables and accruals | 95 | – | – | – | 95 |
| Convertible bonds | 50 | – | – | 232 | 282 |
| Interest-bearing bank and other borrowings | 496 | 146 | 419 | 390 | 1,451 |
| | 686 | 146 | 419 | 622 | 1,873 |

As at 31 December 2016

| HK$ million | Within one year or on demand | In the second year | In the third to fifth years, inclusive | Beyond five years | Total |
|---|---|---|---|---|---|
| Trade payables | 29 | – | – | – | 29 |
| Other payables and accruals | 99 | – | – | 1 | 100 |
| Convertible bonds | – | 50 | – | 230 | 280 |
| Interest-bearing bank and other borrowings | 415 | 123 | 411 | 343 | 1,292 |
| | 543 | 173 | 411 | 574 | 1,701 |

## 50. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(continued)*

### Capital management

The primary objectives of the Group's capital management are to ensure that it maintains healthy capital ratios in order to support its business and maximise shareholders' value.

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

The Group monitors capital using a gearing ratio, which is total borrowings divided by total capital plus total borrowings. The Group includes interest-bearing bank and other borrowings in the total borrowings. Capital includes the total equity. The gearing ratios as at the end of the reporting periods are as follows:

| HK$ million | **2017** | 2016 |
|---|---|---|
| Interest-bearing bank and other borrowings | **1,352** | 1,237 |
| Total borrowings | **1,352** | 1,237 |
| Total capital | **3,350** | 3,202 |
| Total capital and borrowings | **4,702** | 4,439 |
| Gearing ratio | **28.8%** | 27.9% |

## 51. EVENT AFTER THE REPORTING PERIOD

On 3 January 2018, CCT Securities entered into settlement agreements with certain debtors, pursuant to which, trade receivables with an aggregate amount of HK$1,284 million were settled by transferring from the debtors to CCT Securities of: (i) 14,000,000,000 shares of CCT Land at the total price of HK$140 million, based on the price of HK$0.01 per share; (ii) convertible bonds of CCT Land with the principal amount of approximately HK$496 million at the price of approximately HK$496 million, based on a valuation performed by Grant Sherman Appraisal Limited; and (iii) 27% equity interest of a private company at the price of HK$648 million.

## 52. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

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

| HK$ million | 2017 | 2016 |
|---|---|---|
| **ASSETS** | | |
| **Non-current assets** | | |
| Investments in subsidiaries | **1,501** | 1,342 |
| **Current assets** | | |
| Due from subsidiaries | **1,820** | 2,024 |
| Prepayments, deposits and other receivables | **9** | 3 |
| Cash and cash equivalents | **27** | 114 |
| Total current assets | **1,856** | 2,141 |
| **Total assets** | **3,357** | 3,483 |
| **EQUITY AND LIABILITIES** | | |
| Issued capital | **88** | 88 |
| Reserves (note) | **1,762** | 1,877 |
| **Total equity** | **1,850** | 1,965 |
| **Non-current liabilities** | | |
| Convertible bonds | **232** | 280 |
| **Current liabilities** | | |
| Other payables and accruals | **2** | 2 |
| Tax payable | **–** | 1 |
| Due to subsidiaries | **1,075** | 1,076 |
| Interest-bearing bank and other borrowings | **148** | 159 |
| Convertible bonds | **50** | – |
| **Total current liabilities** | **1,275** | 1,238 |
| **Total liabilities** | **1,507** | 1,518 |
| **Total equity and liabilities** | **3,357** | 3,483 |
| **Net current assets** | **581** | 903 |
| **Total assets less current liabilities** | **2,082** | 2,245 |

## 52. STATEMENT OF FINANCIAL POSITION OF THE COMPANY *(continued)*

Note:

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

| HK$ million | Capital redemption reserve | Share premium account | Capital reserve* | Distributable reserve | Equity component of convertible bonds | Accumulated losses | Total |
|---|---|---|---|---|---|---|---|
| At 1 January 2016 | 24 | 181 | 741 | 1,024 | – | (431) | 1,539 |
| Total comprehensive income for the year | – | – | – | – | – | 331 | 331 |
| Issuance of convertible bonds | – | – | – | – | 22 | – | 22 |
| Conversion of convertible bonds | – | 45 | – | – | – | – | 45 |
| 2015 final dividend | – | – | – | (29) | – | – | (29) |
| 2016 interim dividend | – | – | – | (31) | – | – | (31) |
| At 31 December 2016 and 1 January 2017 | **24** | **226** | **741** | **964** | **22** | **(100)** | **1,877** |
| Total comprehensive income for the year | **–** | **–** | **–** | **–** | **–** | **(51)** | **(51)** |
| Shares repurchased | **–** | **(2)** | **–** | **–** | **–** | **–** | **(2)** |
| 2016 final dividend | **–** | **–** | **–** | **(31)** | **–** | **–** | **(31)** |
| 2017 interim dividend | **–** | **–** | **–** | **(31)** | **–** | **–** | **(31)** |
| At 31 December 2017 | **24** | **224** | **741** | **902** | **22** | **(151)** | **1,762** |

* The Company's capital reserve was created from the reduction of share capital which became effective on 7 August 2002.

## 53. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the board of directors on 28 March 2018.

# other information

## PARTICULARS OF THE GROUP'S INVESTMENT PROPERTIES AS AT 31 DECEMBER 2017

| Location | Lot number | Use | Tenure | Attributable interest of the Group |
|---|---|---|---|---|
| House No. 38 and car park space P14 and P15, No. 56 Repulse Bay Road, Repulse Bay, Hong Kong | 364/16,363rd parts of Rural Building Lot No. 172 | Residential | Long term lease | 100% |
| House No. 39 and car park space P5 and P6, No. 56 Repulse Bay Road, Repulse Bay, Hong Kong | 355/16,363rd parts of Rural Building Lot No. 172 | Residential | Long term lease | 100% |
| House No. 7, Rosecliff, No. 20 Tai Tam Road, Hong Kong | 2,310/26,070th parts of Rural Building Lot No. 147 | Residential | Long term lease | 100% |
| Carpark 5, 6 & 11 Fortis Tower 77–79 Gloucester Road, Hong Kong | 3/3100th parts of Inland Lot No. 2782 | Commercial | Long term lease | 100% |
| Shop Nos. 297A, 297B, 297C, 297D, 298, 299, 300 and 301 on the portion of the Basement of the podium of Blocks 1, 2 and 3, City Garden (known as "Maxibase" of City Garden), No. 233 Electric Road, Hong Kong | 2754/21,663rd of 1,135/100,180th shares of Inland Lot No. 8580 | Commercial | Medium term lease | 100% |
| Shop A on Ground floor, Gramercy, No. 38 Caine Road, Hong Kong | 2,150/89,772th of section A of Inland Lot No. 150 | Commercial | Long term lease | 100% |
| Shop B on Ground floor, Gramercy, No. 38 Caine Road, Hong Kong | 945/89,772th of section A of Inland Lot No. 150 | Commercial | Long term lease | 100% |
| Shop A on first floor, Gramercy, No. 38 Caine Road, Hong Kong | 2,504/89,772th of section A of Inland Lot No. 150 | Commercial | Long term lease | 100% |

## PARTICULARS OF THE GROUP'S INVESTMENT PROPERTIES AS AT 31 DECEMBER 2017 *(continued)*

| Location | Lot number | Use | Tenure | Attributable interest of the Group |
|---|---|---|---|---|
| Shop B on first floor, Gramercy, No. 38 Caine Road, Hong Kong | 853/89,772th of section A of Inland Lot No. 150 | Commercial | Long term lease | 100% |
| Workshop 8 on Ground Floor, MP Industrial Centre, No. 18 Ka Yip Street, Hong Kong | 48/8,899th equal and undivided shares of and in Chai Wan Inland Lot No. 139 | Commercial | Medium term lease | 100% |
| 18th Floor, CCT Telecom Building, No. 11 Wo Shing Street, Shatin, N.T., Hong Kong | 14,427/289,200th equal and undivided shares of and in the Remaining Portion of Sha Tin Town Lot No. 17 | Commercial | Medium term lease | 100% |
| Flat G on 33/F of Block 7, Jubilee Garden, Nos. 2–18 Lok King Street, Shatin, New Territories, Hong Kong | 580/2,000,000th shares of Sha Tin Town LOT No.87 | Residential | Medium term lease | 100% |
| The whole of Ground Floor, (excluding portions C), Wah Po Building, No. 1 New Praya, Kennedy Town, Hong Kong | 92/1,076th shares of Marine Lot No. 242 | Commercial | Long term lease | 100% |

## PARTICULARS OF THE GROUP'S STOCK OF PROPERTIES HELD FOR SALE AS AT 31 DECEMBER 2017

| Location | Lot number | Use | Gross floor area (square feet approximately) | Stage of completion | Attributable interest of the Group |
|---|---|---|---|---|---|
| Shop on 18th Floor, Emperor Watch and Jewellery Centre, No. 8 Russell Street, Hong Kong | 241/10010th equal and undivided shares of and in the Remaining Portion of Sub-section 1 of Section E, D and C, the remaining portion of Section E, D and C, of Inland Lot No. 746 | Commercial | 4,718 | Completed | 100% |
| Shop on 19 Floor, Emperor Watch and Jewellery Centre, No. 8 Russell Street, Hong Kong | 241/10010th equal and undivided shares of and in the Remaining Portion of Sub-section 1 of Section E, D and C, the remaining portion of Section E, D and C, of Inland Lot No. 746 | Commercial | 4,718 | Completed | 100% |

# five year financial summary

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

## RESULTS

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| HK$ million | **2017** | 2016 | 2015 | 2014 | 2013 |
| **CONTINUING OPERATIONS** | | | | | |
| **REVENUE** | **585** | 895 | 608 | 198 | 690 |
| **PROFIT BEFORE TAX** | **173** | 352 | 348 | 397 | 319 |
| Income tax (expense)/credit | **6** | (39) | 21 | (2) | (58) |
| **PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS** | **179** | 313 | 369 | 395 | 261 |
| **DISCONTINUED OPERATIONS** | | | | | |
| Loss for the year from discontinued operations | **–** | – | – | (66) | (60) |
| **PROFIT FOR THE YEAR** | **179** | 313 | 369 | 329 | 201 |
| Profit/(loss) attributable to: | | | | | |
| Owners of the parent | **181** | 303 | 369 | 358 | 232 |
| Non-controlling interests | **(2)** | 10 | – | (29) | (31) |
| | **179** | 313 | 369 | 329 | 201 |

## ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

| | As at 31 December | | | | |
|---|---|---|---|---|---|
| HK$ million | **2017** | 2016 | 2015 | 2014 | 2013 |
| **TOTAL ASSETS** | **5,218** | 4,969 | 4,032 | 3,812 | 4,217 |
| **TOTAL LIABILITIES** | **(1,868)** | (1,767) | (1,166) | (1,261) | (2,021) |
| | **3,350** | 3,202 | 2,866 | 2,551 | 2,196 |
| **EQUITY:** | | | | | |
| Equity attributable to owners of the parent | **3,331** | 3,181 | 2,866 | 2,551 | 2,032 |
| Non-controlling interests | **19** | 21 | – | – | 164 |
| | **3,350** | 3,202 | 2,866 | 2,551 | 2,196 |

# glossary of terms

## GENERAL TERMS

| | |
|---|---|
| "2011 Scheme" | the share option scheme conditionally adopted by the Company on 27 May 2011 which took effect on 30 May 2011 |
| "2018 Convertible Bonds" | the 1.5% coupon convertible bonds with the aggregate principal amount of HK$100,000,000 issued by the Company on 3 June 2016, to Top Pride Limited pursuant to the terms and conditions of the Subscription Agreement. An aggregate principal amount of HK$50,000,000 was outstanding as at the date of this annual report |
| "2024 Convertible Bonds" | the 5% coupon convertible bonds with the aggregate principal amount of HK$250,200,000 issued by the Company on 30 March 2016 to Capital Force and New Capital pursuant to the terms and conditions of the Sale and Purchase Agreement |
| "AGM" | annual general meeting |
| "AHM" | AHM Engineering Company Limited, a company incorporated in Hong Kong and an indirect non-wholly-owned subsidiary of the Company |
| "Audit Committee" | the audit committee of the Company |
| "Blackbird Automotive Group" | the Blackbird automotive group established by the Company, which is engaged in the multi-facet automotive business including the Ferrari dealership |
| "Board" | the board of Directors |
| "Capital Force" | Capital Force International Limited, a company incorporated in the British Virgin Islands, the shares in which are wholly-owned by Mr. Mak |
| "Capital Winner" | Capital Winner Investments Limited, a company incorporated in the British Virgin Islands, the shares in which are wholly-owned by Mr. Mak |
| "CCT Land" | CCT Land Holdings Limited, a company listed on the Main Board of the Stock Exchange |
| "CCT Land Group" | CCT Land and its subsidiaries |
| "CCT Securities" | CCT Telecom Securities Limited, a company incorporated in Hong Kong and an indirect wholly-owned subsidiary of the Company, which is principally engaged in securities business |
| "CEO" | the chief executive officer of the Company |
| "CG Code" | the Corporate Governance Code as set out in Appendix 14 to the Listing Rules |

| | |
|---|---|
| "Chairman" | the chairman of the Company |
| "Child Products" | feeding, health care, hygiene, safety, toy and other related products for infants and babies, which are the child products currently traded by the Group |
| "Child Product Trading Business" | the business of trading and sale of the Child Products currently engaged by the Group |
| "Company" | CCT Fortis Holdings Limited |
| "Cultural Entertainment Group" | an operating group established by the Company, which is engaged in the cultural entertainment operations |
| "Director(s)" | the director(s) of the Company |
| "Executive Director(s)" | the executive director(s) of the Company |
| "Group" | the Company and its subsidiaries |
| "HHL" | Hip Hing Loong Stage Engineering Company Limited (previously known as "Hip Hing Loong Metal Works Limited"), a company incorporated in Hong Kong and indirect non-wholly-owned subsidiary of the Company |
| "HK" or "Hong Kong" | the Hong Kong Special Administrative Region of the PRC |
| "HK$" or "$" | Hong Kong dollar(s), the lawful currency of Hong Kong |
| "Industrial Group" | an industrial group established by the Company, which is engaged in the manufacture of plastic components and the Child Products Trading Business |
| "INED(s)" | independent non-executive director(s) |
| "Invested Entity" | any entity in which any member of the Group holds any equity interest |
| "Listing Committee" | the listing committee of the Stock Exchange for considering applications for listing and the granting of listing |
| "Listing Rules" | the Rules Governing the Listing of Securities on the Stock Exchange |
| "Model Code" | the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules |
| "Mr. Mak" | Mr. Mak Shiu Tong, Clement, a director and the controlling shareholder of the Company |
| "N/A" | not applicable |

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| "New Capital" | New Capital Industrial Limited, a company incorporated in the British Virgin Islands, the shares in which are wholly-owned by Mr. Mak |
| "Nomination Committee" | the nomination committee of the Company |
| "PRC" or "China" | the People's Republic of China |
| "Remuneration Committee" | the remuneration committee of the Company |
| "RMB" | Renminbi, the lawful currency of the PRC |
| "Sale and Purchase Agreement" | the agreement dated 27 January 2016 (as amended by the supplemental agreement dated 17 February 2016) entered into between Mr. Mak as vendor and the Company as purchaser in respect of acquisition from Mr. Mak of the entire issued share capital of the companies which hold the properties at House 38 and House 39, No. 56 Repulse Bay Road, Repulse Bay, Hong Kong and the assignment of the shareholder loans then due to Mr. Mak by those property holding companies |
| "SFO" | the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) |
| "Share(s)" | the ordinary share(s) of HK$0.10 each in the share capital of the Company |
| "Shareholder(s)" | holder(s) of the Share(s) |
| "Stock Exchange" | the Stock Exchange of Hong Kong Limited |
| "Subscription Agreement" | the agreement dated 30 May 2016 entered into between Top Pride Limited as subscriber and the Company as issuer in respect of subscription and issue of the 2018 Convertible Bonds for cash |
| "US" | the United States of America |
| "US$" or "USD" | United States dollar(s), the lawful currency of the US |
| "%" | per cent. |

**FINANCIAL TERMS**

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| "current ratio" | current assets divided by current liabilities |
| "earnings per share" | profit attributable to ordinary equity holders of parent divided by weighted average number of ordinary shares in issue during the period |
| "gearing ratio" | total borrowings (representing bank & other borrowings and finance lease payable) divided by total capital employed (i.e. total Shareholders' fund plus total borrowings) |
| "G.P. Ratio" | gross profit margin as a percentage of revenue |
| "operating profit/(loss)" | operating profit/(loss) before interest, tax and unallocated income and expenses to show operating results of business segment |