



SiS International Holdings Limited

(Incorporated in Bermuda with limited liability)

(Stock Code: 00529)

ANNUAL REPORT 2017





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Corporate Information

DIRECTORS

Executive Directors:

Lim Kia Hong
(Chairman and Chief Executive Officer)
 Lim Kiah Meng *(Vice-chairman)*
 Lim Hwee Hai
 Lim Hwee Noi

Independent Non-executive Directors:

Lee Hiok Chuan
 Ong Wui Leng
 Ma Shiu Sun, Michael

COMPANY SECRETARY

Chiu Lai Chun, Rhoda

REGISTERED OFFICE

Canon's Court
 22 Victoria Street
 Hamilton HM 12
 Bermuda

PRINCIPAL PLACE OF BUSINESS

803
 Nine Queen's Road Central
 Hong Kong
 Telephone: (852) 2138 3938
 Fax: (852) 2138 3928

STOCK CODE

00529

INVESTOR RELATIONS

www.sisinternational.com.hk
enquiry@sis.com.hk

AUDITORS

Deloitte Touche Tohmatsu

SOLICITORS

Cleary Gottlieb Steen & Hamilton (Hong Kong)
 Norton Rose Fulbright

PRINCIPAL BANKERS

DBS Bank Ltd.
 Hang Seng Bank Limited
 The Hongkong and Shanghai Banking Corporation Limited
 MUFG Bank, Ltd.
 OCBC Bank
 Standard Chartered Bank (Hong Kong) Ltd.
 Sumitomo Mitsui Banking Corporation
 The Tokyo Star Bank, Limited
 United Overseas Bank Limited

PRINCIPAL SHARE REGISTRARS AND TRANSFER OFFICE

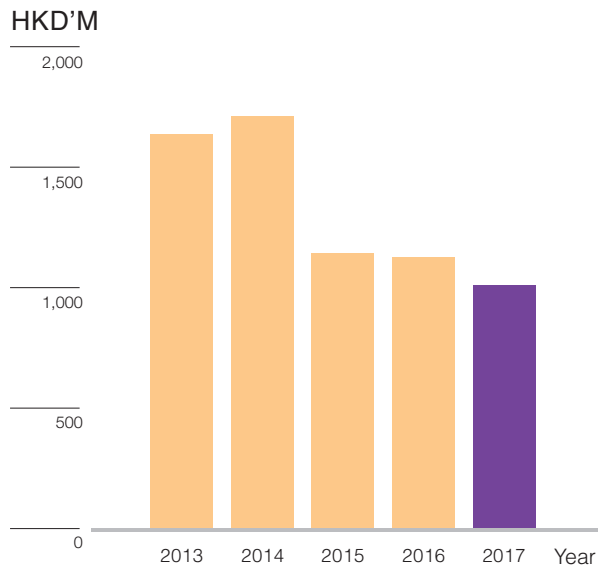
MUFG Fund Services (Bermuda) Limited
 The Belvedere Building
 69 Pitts Bay Road
 Pembroke HM08
 Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

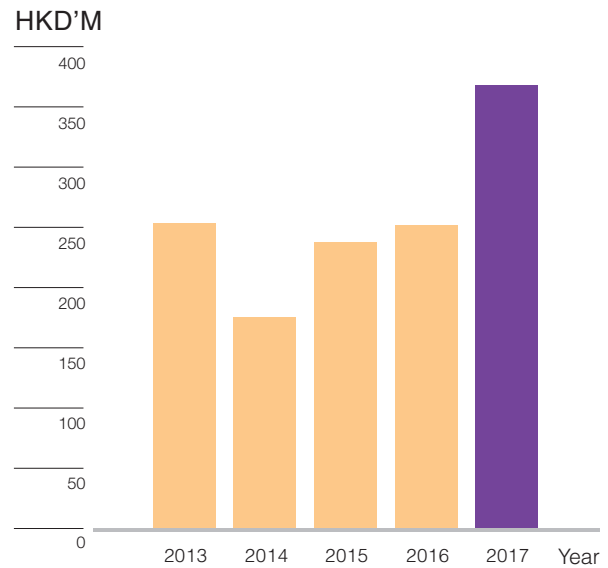
Tricor Secretaries Limited
 Level 22, Hopewell Centre
 183 Queen's Road East
 Hong Kong

Financial Highlights

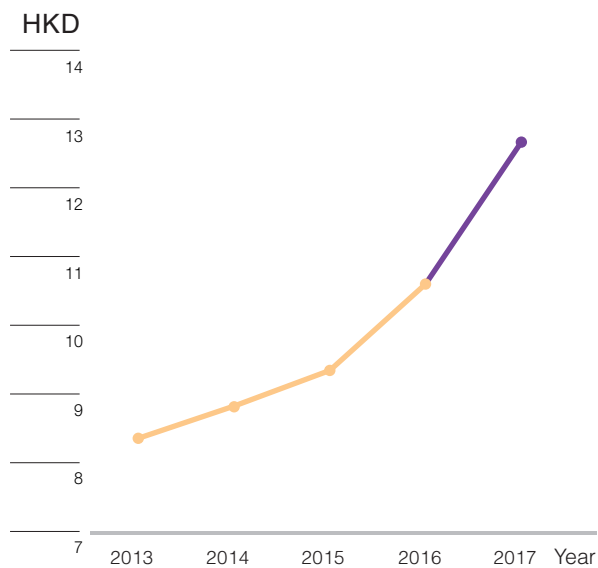
Revenue



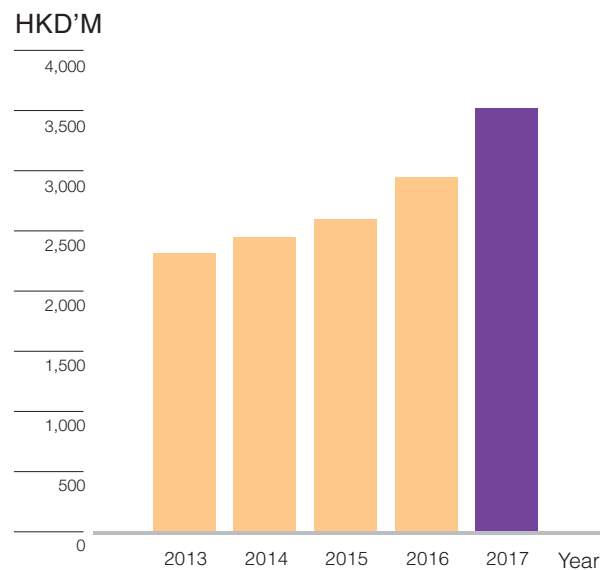
Net Profit



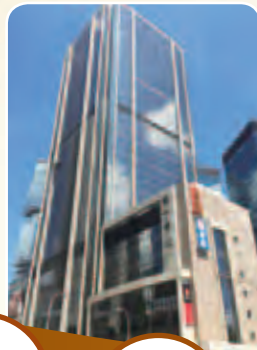
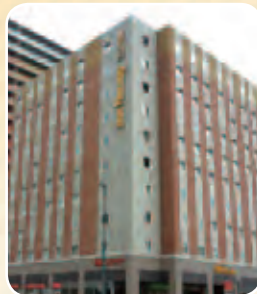
Net Asset Value Per Share



Shareholders' Equity



History & Milestones



1983

1984

1987

1992

1997

2002

2004

1983



- Founded in Singapore
- Became distributor for Dyson floppy disk in 1983 and 3Com network in 1984 and started building a reseller base

1987

- One of the first to distribute original software from Symantec, WordPerfect, Aldus Pagemaker, Harvard Graphics, Central Point Software

1997

- Sold a 80% stake in SiS Distribution Ltd. to CHS Electronics

2002

- One of the first to introduce smartphones in Asia



1984



- Introduced AST peripherals and Tallgrass' tape drives to new IBM and Apple resellers

1992

- SiS listed successfully on the main board of the Hong Kong Stock Exchange (529. HK) in less than 10 years after it was founded in 1983



2004

- SiS Thailand successfully listed on Thailand Stock Exchange (SIS. TH) in less than 5 years after it was invested by SiS Group in 2000





2011



- Acquired a stake in Information Technology Consultants Limited (“ITCL”), a provider of payment gateway services and one of the leading providers of ATMs in Bangladesh
- Acquired Synergy Technologies (Asia) Ltd to form SiS mobile business
- Sold IT distribution business in Hong Kong, Singapore, Malaysia to conglomerate Jardine Matheson Group

2012-2015

- Acquired properties in Japan
 - In 2012 Rinku Gate Tower in Osaka (the second tallest building in Japan)*
 - In 2013 five Toyoko Inn hotel properties
 - In 2014 two hotel properties in Otaru and Hakodate respectively
 - In 2015 two hotel properties in Tokyo and Kyoto respectively



2015

- SiS Mobile Holdings Limited successfully listed on the main board of Hong Kong Stock Exchange (1362.HK)

2016



- ITCL successfully listed on The Dhaka Stock Exchange and the Chittagong Stock Exchange in Bangladesh
- Acquired properties in Japan
 - In 2016 seven hospitality properties in Tokyo, Osaka, Kyoto, Sapporo and Otaru respectively

2017

- Acquired additional interest in SiS Thailand thus it became a subsidiary of SiS Group

* based on encyclopedia Wikipedia on 23 November 2012.

Message from the Chairman and CEO

Dear Shareholders,

I am delighted to present to our shareholders results of the Group for the year ended 31 December 2017. Total net profit for the year increased 46% to HK\$370 million while revenue for the year decreased to HK\$1,011 million.

Total assets of the Group increased to HK\$7,507 million, with assets appreciation of HK\$1,831 million for the year. Net assets value per share increased from HK\$10.63 to HK\$12.70.

The transformation and implementation of strategic initiatives to build multiple income streams of businesses for the Group has recorded positive result for the Group. The Group continue to grow from strength to strength in our distribution business, real estate portfolio and in promising investments in IT businesses and securities.

BUSINESS REVIEW

Real Estate Investments Business

At the end of 2017, the Group holds interest in seventeen (17) hotels and hostels properties in Japan and twelve (12) investment properties in Hong Kong and Singapore. This sizeable portfolio of income generating properties with long term potential for capital appreciation has contributed positively to the net results of the Group.

The total revenue from Group's real estate investment portfolio for the year increased 13% to HK\$244 million and generated a segment profit (excluding gains from change in fair value) of HK\$128 million as compared to HK\$121 million in last year.

The appreciation of the Group's real estate investment resulted in the increase of the Group's carrying value of investment properties from HK\$3,724 million to HK\$4,082 million.

Message from the Chairman and CEO

Distribution Business

SiS Distribution (Thailand) Public Company Limited (“SiS Thai”) in Thailand became a non-wholly owned subsidiary of the SiS Group upon the completion of our voluntary general offer to its shareholders in December 2017. A gain on re-measurement of previously held interest in SiS Thai of HK\$119 million was reported for the year. With an established IT distribution and resellers network, SiS Thai is well positioned to continue its momentum of growth with improved political and economic climate in Thailand.

Investment in IT, Securities and other Businesses

In Bangladesh, our associate company, Information Technology Consultants Limited, continue to grow and contributed positively to the Group during the year.

Despite an impairment loss made for an investment fund in the first half of 2017, the segment profit for investments in IT, securities and other businesses increased. The investment held-for-trading portfolio recorded a fair value gain during the year. The Group realized a profit from the partial disposal of our investment in a technology company that is listed in the US. The Group will continue to invest in promising securities and optimize its securities investment portfolio by selling at an appropriate time.

PROSPECT

As world economy recovers slowly, the Directors are cautiously looking ahead with confidence. We have a sizeable portfolio of real estate properties and a leading position in IT distribution in Thailand; we are a leading consultant and provider of financial services, payment gateway, ATM, mobile payments & banking solutions in Bangladesh. We had achieved an impressive record of continuous consecutive profitability for the Group since our inception. We will remain Focused on maximizing shareholders value with Determination to succeed, commitment to efficient execution & business Excellence.

APPRECIATION

We would like to thank our committed staff for their contributions, our customers, business partners, shareholders and directors for their support in SiS. Our success would not have been possible without their dedication, contributions, efforts, time and confidence.

LIM Kia Hong
Chairman & CEO

Hong Kong, 16 March 2018

Management Discussion and Analysis

Liquidity and Financial Resources

As at 31 December 2017, the Group had total assets of HK\$7,507,126,000 which were financed by total equity of HK\$3,530,831,000 and total liabilities of HK\$3,976,295,000. The Group had a current ratio of approximately 1.06 compared to that of approximately 0.93 at 31 December 2016.

As at year end 2017 the Group had HK\$1,118,489,000 (2016: HK\$976,839,000) bank deposits balances and cash of which HK\$466,337,000 (2016: HK\$331,948,000) was pledged to banks to secure bank borrowings. The Group's working capital requirements were mainly financed by internal resources, bank loans and bonds. As at 31 December 2017, the Group had short term loans and bonds of total HK\$1,667,093,000 (2016: HK\$1,101,758,000) and long term loans and bonds of HK\$1,233,615,000 (2016: HK\$1,213,463,000). The borrowings were mainly denominated in Japanese Yen, Thai Baht and Hong Kong Dollar, and were charged by banks at floating interest rates.

At the end of December 2017, the Group had a net cash deficit (total bank loans and bonds, less bank balances and cash and pledged deposits) of HK\$1,782,219,000 (2016: HK\$1,338,382,000).

Gearing ratio, as defined by total bank borrowings and bonds to total equity as at 31 December 2017 was 82% (2016: 78%).

Charges on Group Assets

At the balance sheet date, the Group's had pledged deposits of HK\$466,337,000 (2016: HK\$331,948,000), investment properties with carrying value of HK\$3,879,393,000 (2016: HK\$3,539,810,000) and property, plant and equipment with carrying value of HK\$180,970,000 (2016: HK\$177,527,000) were pledged to banks to secure general banking facilities granted to the Group and for purchase of investment properties and working capital. Certain shares of subsidiaries have been pledged to the banks as at 31 December 2017 and 2016 to secure several banking facilities available to the Group.

Number and Remuneration of Employees, Remuneration Policies, Bonus and Share Option Schemes

The number of staff of the Group as at 31 December 2017 was 702 (2016: 103) and the salaries and other benefits paid and payable to employees, excluding Directors' emoluments and share option expenses, amounted to HK\$44,750,000 (2016: HK\$43,787,000) for the year ended 31 December 2017. In addition to the contributory provident fund and medical insurance, the Company adopts share option scheme and may grant shares to eligible employees of the Group. The Directors believe that the Company's share option schemes could create more incentives and benefits for the employees and therefore increase employees' productivity and contribution to the Group. During the year ended 31 December 2017, share options of 400,000 have been exercised and the weighted average closing share price immediately before dates of exercise of the share options were HK\$4.00. The Group's remuneration policy is to relate performance with compensation. The Group's salary and discretionary bonus system is reviewed annually. There are no significant changes in staff remuneration policies from last year.

Management Discussion and Analysis

Environmental, Social and Corporate Responsibility

As a responsible company, the Group is committed to maintain high environmental and social standards to ensure sustainable development of its business. The Group has complied with all relevant laws and regulations in relation to its business including employment, workplace conditions, health and safety and the environment. The Group understands a better future depends on everyone's participation and contribution. It has encouraged employees and other stakeholders to participate in environmental and social activities which benefit the community as a whole.

Relationship with Key Stakeholders

The Group maintains strong relationship with its employees, has enhanced cooperation with its vendors and has provided high quality products and services to its customers and resellers so as to ensure sustainable development. Details of the environmental, social and governance are included in the Environmental, Social and Governance Report.

Currency Risk Management

Certain purchase of goods of the Group are dominated in United States dollar. Certain bank balances are dominated in United States Dollar, Australian Dollar, Singapore Dollar, Japanese Yen and Renminbi, while certain bank borrowings are dominated in United States Dollar and Japanese Yen. These currencies are other functional currencies of the relevant group entities. The Group currently does not have comprehensive currency hedging policy. However, the management monitors the currency fluctuation exposure and has entered into foreign currency forward contracts. At 31 December 2017 the Group had outstanding forward contracts of notional amount HK\$63,164,000 (2016: nil) which were measured at fair value at the reporting date.

Contingent Liabilities

The Company's corporate guarantees extended to two banks as security for banking facilities to the Group amounted to total HK\$154,000,000 (2016: HK\$244,000,000).

Corporate Governance Report

CODE ON CORPORATE GOVERNANCE PRACTICES

On 23 September 2005, the Company has adopted its own corporate governance code (with subsequent amendments) which is substantially similar or in exceeds as the Code on Corporate Governance Practices (the "Code") as set out in the Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"). Material deviations from the Code are explained in the report below.

BOARD OF DIRECTORS, CHAIRMAN AND CHIEF EXECUTIVE

The Board is responsible for formulating business strategies, and monitoring the performance of the business of the Group. Other than the daily operational decisions which are delegated to the management of the Group, most of the decisions are taken by the Board. All Directors, including independent non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning.

The Board currently comprised of four Executive Directors, namely Messrs. Lim Kia Hong (Chairman and Chief Executive Officer), Lim Kiah Meng, Lim Hwee Hai, and Madam Lim Hwee Noi, and three Independent Non-Executive Directors (the "INED"), namely, Mr. Lee Hiok Chuan, Ms. Ong Wui Leng and Mr. Ma Shiu Sun, Michael. Messrs. Lim Kia Hong and Lim Kiah Meng, and Madam Lim Hwee Noi are brother and sister. Mr. Lim Hwee Hai is spouse of Madam Lim Hwee Noi. Biographical details of each Director and relationship between board members are set out on pages 23 to 24 of the annual report.

Each of the INED has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Company is of the view that all INEDs meet the independent guidelines set out in Rule 3.13 of the Listing Rules and are independent in accordance with the terms of the guidelines. One of the INED has more than twenty years experience in corporate banking, corporate finance and management.

The INEDs Mr. Lee Hiok Chuan and Ms. Ong Wui Leng are not appointed with a specific term as required by Code A.4.1, but are subject to retirement by rotation and re-election at the Company's annual general meeting in accordance with the Company's Bye-Laws 99(B). As such, the Directors consider that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less than exacting than those in the Code.

According to the Bye-Laws of the Company, at each annual general meeting one-third (or the number nearest to one-third) of the Directors at the time being shall retire from office provided that notwithstanding anything therein, the Chairman of the Board and Managing Directors of the Company shall not be subject to retirement by rotation or be taken into account in determining the number of Directors to retire in each year. This deviates from the provision in Code A.4.2 which requires every Director to be subject to retirement by rotation at least once every three years. The Directors consider the deviation acceptable as the position of chairman shall be elected after the next Annual General Meeting. Also in view of the small number of the total Directors of the Company, the deviation is not material.

Corporate Governance Report

The positions of the Chairman and Chief Executive Officer are held by the same individual, Mr. Lim Kia Hong who is responsible for the charting of corporate strategies and direction of the Group. As Chairman of the Board, Mr. Lim provides leadership and plays a pivotal role fostering constructive dialogue between the Board, shareholders and management. As the Vice Chairman of the Board, Mr. Lim Kiah Meng plays a key role in developing operating policies and business development and ensures the effectiveness and efficiency of the business operations of the Group. According to the Bye-Laws of the Company, the position of chairman and vice-chairman shall be elected after next Annual General Meeting to be held on 5 June 2018. The deviation from the Code A.2.1 is considered acceptable.

The nomination, appointment and removal of Directors are considered by the Nomination Committee. The Nomination Committee shall made recommendation to the Board whenever they consider appropriate. During the year 2017, the Nomination Committee considered that the experience, expertise, leadership and qualification of the existing Directors are sufficient to maintain corporate governance of the Company and manage the operations of the Group.

The Board has established three Committees. The table below provides membership information of these Committees on which certain Board members serve:

Directors	Audit Committee	Nomination Committee	Remuneration Committee
Mr. Lim Kia Hong	–	C	M
Mr. Lim Kiah Meng	–	M	M
Mr. Lee Hiok Chuan	M	M	M
Ms. Ong Wui Leng	C	M	C
Mr. Ma Shiu Sun, Michael	M	M	M

Notes:

C – Chairman of the relevant Committee

M – Member of the relevant Committee

AUDIT COMMITTEE

The Audit Committee is comprised of all INED. Ms. Ong Wui Leng was appointed as the Chairlady of the Audit Committee.

The main duties of the Audit Committee include:

- to consider the appointment, reappointment and removal of the external auditors, the audit fee and terms of engagements, and any questions of resignation or dismissal of that auditors;
- to monitor integrity of half-year and annual financial statements before submission to the Board;
- to review the Company's financial controls, internal control and risk management systems; and
- to review the Group's financial and accounting policies and practices.

Corporate Governance Report

The Audit Committee has met four times during the year ended 31 December 2017 and has reviewed the managements accounts, half-year, and annual financial results of the Group and its subsidiaries. Certain recommendations have been made to the internal control of the Company and its subsidiaries. Audit Committee had met the external auditors without the present of Executive Directors on reviewing the half year and annual financial results.

NOMINATION COMMITTEE

The Nomination Committee was set up with written terms of reference with effect from 28 March 2012 and is comprised of all INED and two Executive Directors, namely Messrs. Lim Kia Hong and Lim Kiah Meng. Mr. Lim Kia Hong is the Chairman of the Nomination Committee.

The duties of the Nomination Committee shall be:

- review the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;
- identify individuals suitably qualified to become board members and select or make recommendations to the Board on the selection of individuals nominated for directorships;
- assess the independency of independent non-executive directors; and
- make recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors, in particular the chairman and the chief executive.

A meeting was held during the year ended 2017 to review and discuss the composition of the Board of the Company, and to assess the independency of independent non-executive directors.

REMUNERATION COMMITTEE

The Remuneration Committee was set up on 23 September 2005 and is comprised of all INED, and two Executive Directors, namely Messrs. Lim Kia Hong and Lim Kiah Meng, with Ms. Ong Wui Leng as Chairlady from 27 March 2012 onwards.

The Committee is mainly responsible for making recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management, and reviewing and approving the compensation payable to Executive Directors and senior management. A meeting was held during the year ended 31 December 2017, and the members had reviewed the remuneration policy and determined remuneration of Directors.

Corporate Governance Report

Pursuant to Code Provision B.1.5 of the Code, details of the annual remuneration of the directors and senior management by band for the year ended 31 December 2017 are as follows:

Remuneration band	Number of individuals
HK\$1 to HK\$1,000,000	3
HK\$1,000,001 to HK\$3,000,000	1
HK\$3,000,001 to HK\$5,000,000	2
HK\$5,000,001 to HK\$7,000,000	1

Details of the remuneration of each director for the year ended 31 December 2017 are set out in note 11 to the consolidated financial statements.

CORPORATE GOVERNANCE FUNCTIONS

The Board is collectively responsible for performing the corporate governance duties which have been formalised into the terms of reference of the Board, a summary of which are as follows:

- develop and review the Company's policies and practices on corporate governance and make recommendation to the Board;
- review and monitor the training and continuous professional development of Directors and senior management;
- review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- develop, review and monitor the code of conduct and compliance manual (if any) applicable to Directors and employees; and
- review the Company's compliance with the code and disclosure in the Corporate Governance Report.

During the year 2017, the Board performed its corporate governance duties and approved the Corporate Governance Report contained in this Annual Report.

DIRECTORS' SECURITIES TRANSACTION

The Company adopted its own code of conduct regarding Directors' dealing in securities on 23 September 2005 (the "Code of Conduct") with subsequent amendments thereafter. The term of the Code of Conduct are no less exacting than the required standard set out in the Model Code set out in Appendix 10 of the Listing Rules. Having made specific enquiry of all Directors, the Directors of the Company have complied with the Model Code and the Company's Code of Conduct.

Corporate Governance Report

DIRECTORS' AND AUDITORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledged their responsibility for preparing the financial statements which give a true and fair view of the state of affair of the Group. The statement of the external auditors of the Company about their reporting responsibilities on the financial statements of the Group is set out in the Independent Auditor's Report on pages 38 to 42.

AUDITORS' REMUNERATION

During the year ended 31 December 2017, the Group had engaged external auditors, Deloitte Touche Tohmatsu, to provide the following services:

	Service fee HK\$'000
Audit services	2,248
Tax advisory	25
Other services	825
	<u>3,098</u>

ATTENDANCE OF MEETINGS

The following table shows the attendance of each Director at general meeting, meetings of the Board and the above committees during the year 2017:

	Annual/ Special General Meeting	Board	Audit Committee	Nomination Committee	Remuneration Committee
Number of meeting during the year	(2)	(6)	(4)	(1)	(1)
Executive Directors					
Lim Kia Hong	2	6	N/A	1	1
Lim Kiah Meng	2	6	N/A	1	1
Lim Hwee Hai	1	6	N/A	N/A	N/A
Lim Hwee Noi	1	6	N/A	N/A	N/A
Independent Non-Executive Directors					
Lee Hiok Chuan	2	6	4	1	1
Ong Wui Leng	2	6	4	1	1
Ma Shiu Sun, Michael	2	6	4	1	1

Corporate Governance Report

RISK MANAGEMENT AND INTERNAL CONTROLS

System of internal controls is defined as a system of internal controls procedures which is used to help the achievement of business objectives, and safeguard the Group's assets; to ensure proper maintenance of accounting records and compliance with relevant legislation and regulations.

The management of the Group would evaluate the risk management and internal control system periodically and enhance the system when necessary. The Company has internal audit functions. The internal auditors reviewed the risk management and internal controls system on an ongoing basis covering all major operations of the Group on a rotational basis, and reported directly to the Audit Committee and Board on a regular basis.

Through the internal control functions of the Group, the Directors conduct three reviews of the effectiveness of the system of the internal control and risk management of the Group during the year. The Directors considered that the systems adequate and effective.

DIRECTORS' TRAINING AND PROFESSIONAL DEVELOPMENT

The Company is responsible for arranging and funding suitable training for its directors. During the year 2017, the Company had organised a seminar regarding the latest developments in listing rules and other applicable regulatory requirement for the directors, to ensure compliance and enhance their awareness of good corporate governance practices. In addition, individual directors also participated in other courses relating to the roles, functions and duties of a listed company director or further enhancement of their professional development by way of attending training courses or reading relevant materials. The Company Secretary reports from time to time the latest changes and development of the Listing Rules, corporate governance practices and other regulatory regime to the Directors with written materials. The Company has devised a training record to assist the Directors to record the training they have undertaken.

During the year, the Directors participated in continuous professional development activities as set out below:

	Attending trainings/ briefings/seminars
Executive Directors	
Lim Kia Hong	✓
Lim Kiah Meng	✓
Lim Hwee Hai	✓
Lim Hwee Noi	✓
Independent Non-Executive Directors	
Lee Hiok Chuan	✓
Ong Wui Leng	✓
Ma Shiu Sun, Michael	✓

COMPANY SECRETARY

Ms. Chiu Lai Chun, Rhoda has been appointed as company secretary of the Company since 2004. She is a Certified Public Accountant in Hong Kong. She has fulfilled the 15 hours of relevant professional training requirements under the Rule 3.29 of the Listing Rules for the year ended 31 December 2017.

Corporate Governance Report

INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS

To enhance the communication with investors, or shareholders, the Company has established several communication channels, including (a) the annual and extraordinary general meetings which provide a forum for shareholders to communicate directly with the Board; (b) printed corporate documents mailing to shareholders; (c) announcement disseminating the latest activities of the Group on the web-sites of the Company and the Stock Exchange of Hong Kong; (d) meeting with investment fund manager and investors; and (e) the Company's web-site providing an electronic means of communication.

The shareholders' meeting in 2017 was the annual general meeting held on 26 May 2017 at Kellett Room III, 3/F, The Excelsior, 281 Gloucester Road, Causeway Bay, Hong Kong to receive and consider the audited financial statements for the year ended 31 December 2016; to re-elect directors; and approve the general mandates for the issue and repurchase of the Company's share.

During the year under review, the Company has not made any changes to its Bye-Laws. An up to date version of the Company's Bye-Laws is available on web-sites of the Company and the Stock Exchange of Hong Kong. Shareholders may refer to the Company's Bye-Laws for further details of their rights.

SHAREHOLDERS' RIGHTS

To safeguard shareholders' interests and rights, separate resolutions are proposed at shareholders' meetings on each substantial issue, including the election of individual directors, for shareholders' consideration and voting. Besides, pursuant to the Company's Bye-Laws, a special general meeting shall be convened on the written requisition of any two or more shareholders holding at the date of the deposit of the requisition in aggregate not less than one-tenth of such of the paid up capital of the Company as at the date of the deposit carries the right of voting at general meetings of the Company. Such requisition must state the objects of the meeting and must be signed by the shareholders and deposited at the Company's office.

For avoidance of doubt, a general meeting other than an annual general meeting or a meeting for the passing of special resolutions shall be called by notice in writing of not less than a period which is the longer of fourteen days and ten clear business days.

Shareholders may send written enquiries to the Company for putting forward any enquiries or proposals to the Board. Contact details are as follows:

803 Nine Queen's Road Central, Hong Kong
Fax: (852) 2138 3928
Email: enquiry@sis.com.hk

All resolutions put forward at general meetings will be voted by poll pursuant to the Listing Rules and the poll voting results will be posted on the web-sites of the Company (www.sisinternational.com.hk) and the Stock Exchange of Hong Kong (www.hkexnews.hk) immediately after the relevant general meetings.

Environmental, Social and Governance Report

ENVIRONMENTAL

Unless otherwise specified, the environmental data covers the Group's operation in Hong Kong, Singapore and Japan. The Group's operation in Thailand has become a subsidiary by end of 2017. As it is listed in Thailand with its own ESG report, the data of Thailand was excluded from this report.

During the year, the Group has made its best endeavours to protect the environment from its business activities and workplace. The Group also educates its employees on their awareness of promoting a green environment. The Group seeks to identify and manage environmental impacts attributable to its operation, in order to minimise these impacts if possible.

A1. Emissions

The Group invests in income generating properties or properties with the potential to appreciate in value. Most of the properties are for office and hospitality usage purposes. Properties are leased to tenants/hotel operators for stable lease income. Therefore the hospitality operation attributes greenhouse emission for the Group. The Group has taken steps to closely monitor and minimize environmental impacts in its hospitality operation.

For our 56-storey iconic building involving hospitality, office and conventional centre located in Japan, an energy system was installed by an Energy Service Company ("ESCO") in 2015 for energy saving purpose. The ESCO is engaged to monitor the effectiveness of new heat source system regularly. Electricity, heating & gas ("Energies") was saved continuously since 2015.

During 2017, there are three more hospitality buildings in Japan running by the Group, causing increase in CO₂ emission.

We are also the pioneer in technology product distribution in Asia with an extensive reseller channel network representing many world renowned vendors. No generation on hazardous waste as we are not manufacturers.

Emissions of greenhouse gases by the Group were mainly contributed by the consumption of purchased electricity, heating and gas consumption in hospitality business.

CO₂ Emission (Tonnes)	2017	2016
Energy indirect emission	4,490,780	4,043,526
Other indirect emission	43	42
Total greenhouse gas emission	4,490,823	4,043,568

Indirect emission is mainly from paper usage in offices and senior management's air travel. It amounted to 43 tonnes CO₂ for the year ended 31 December 2017 (2016: 42 tonnes CO₂).

Non-hazardous waste produced (paper waste, printer cartridges, tonner bottle) was 2,883 kg in 2017 (2016: 1,948 kg).

A2. Use of Resources

Energies consumption and water consumption were mainly attributable to its hospitality business. For 2017, total Energies consumption was 8,390 million kWh (2016: 7,747 million kWh), whereas the water usage was 167,644 cubic metre (2016: 144,246 cubic metre).

For distribution business, goods were delivered to our resellers at original packaging. No material additional packaging materials were required.

Air conditioners, computers and office lights are switched off during non-business hours, to minimise light pollution and reduce energy consumption.

Environmental, Social and Governance Report

A3. The Environment and Natural Resources

To create a green workplace, we encourage reducing, reusing and recycling of materials to minimizing wastage in daily operations. For energy saving and greenhouse emission reduction, energy system was installed in our iconic building in Japan for energies saving, recycling bins are provided at our offices with waste paper and used toner cartridges collected for recycling. The Group encourages its employees to handle documents electronically. When the use of paper is required, documents are required to use double-sided printing. In addition, we arranged conference calls or video conference instead of face-to-face meetings where possible.

SOCIAL

B1. Employment and Labour Practices

Employment, remuneration and benefits, recruitment and promotion

The Group is always complying with the labour regulations and associated guidelines. Our full-time staffs are entitled to paternity and compassionate leaves, healthcare and mandatory provident fund in respective jurisdiction. We apply equal opportunity and non-discrimination in recruitment, promotion and all other aspects of our employment practices. We encourage a healthy work-life balance among staffs. As at 31 December 2017, the Group had a total of 147 (2016: 103) permanent staffs. 67% (2016: 93%) are located in Hong Kong and the remaining are located in Singapore and Japan.

To attract, motivate and retain experience staffs, we reviewed their pay packages annually with prevailing market conditions to ensure they are competitive under volatile and severe market. To create incentives for directors and senior staffs to work with commitment toward enhancing the value of the Group and its shareholders, the Company adopted share option scheme and grant share options to eligible staffs of the Group since 1992.

Workforce by gender:

	Hong Kong	Singapore	Japan	Total
Male	52%	50%	33%	46%
Female	48%	50%	67%	54%

Workforce by age group:

	Hong Kong	Singapore	Japan	Total
Below 30	13	0	17	30
Age 31-50	70	3	20	93
Over 50	15	3	6	24
Number of staffs	98	6	43	147

Environmental, Social and Governance Report

Workforce by function:



Diversity and Equal Opportunities

The diversity of our employees provides us with a valuable mix of perspectives, skills, experience and knowledge for addressing contemporary business issues. At a senior management level, our board diversity policy guides the Group's approach to selection of candidates taking into account an extensive range of characteristics, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service.

B2. Health and Safety

The Group provided a safe and healthy environment in the work places for all staffs. The staff turnover rate was low and there was no reported lost days caused by injury.

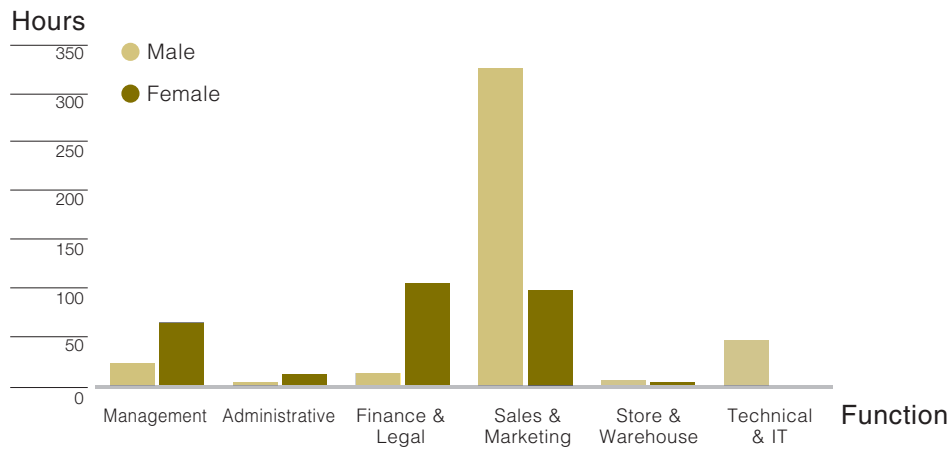
B3. Development and Training

As a distributor of renowned brands information technology products, mobile phones and related products, our sales force and technical staffs possess broad knowledge of networking, storage, and mobility products in order to provide the best services to our resellers. We worked closely with suppliers to keep our sales teams updating to the latest technology and features of new products. The Group understands training and development is one of the keys to success. We offer both internal and external training to our key staffs. Total training hours offered in 2017 was 692 hours (2016: 514 hours) for 87% (2016: 75%) staffs, average 5 hours (2016: 6 hours) per trained staff. Those training were focusing on product knowledge, customer services, food and beverage, accounting and regulatory compliance update.

Environmental, Social and Governance Report

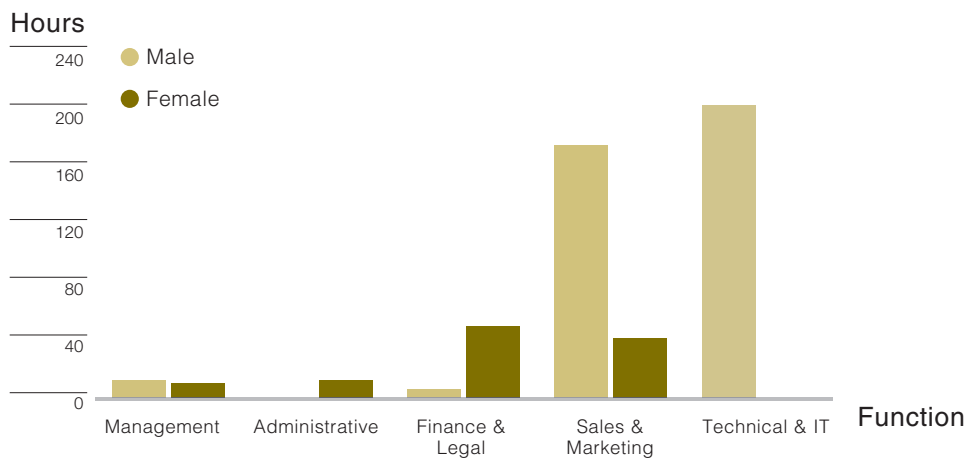
FY2017

Training hours by gender and function:



FY2016

Training hours by gender and function:



The Group also encourages and provides subsidies to employees to pursue educational or training opportunities that achieve professional development.

Environmental, Social and Governance Report

B4. Labour Standards

The Group has complied with relevant labour regulations, government regulations in Hong Kong, Singapore and Japan. The Group does not employ staffs who are below 18 years of age. No employee is paid less than the minimum wage specified by the government regulations. Monthly salary payments, the Mandatory Provident Fund Scheme or Central Provident Fund Scheme payment are made on time.

During recruitment process, verification of applicant's identity information is required and recruitment of child labour is strictly prohibited. Applicant is also required to provide document proofs of academic qualifications and working experience for verifications, applicant who is suspected to have false academic qualifications and working experience would not be employed. The Group enters employment contract with each of its employee in accordance with relevant laws and regulations in its operating jurisdiction and also prohibits forced labour.

B5. Supply chain management

Sound supply chain management ensures the Group to sustain its business operations and development. As well as leveraging our extensive network of information technology distribution, we have maintained strong relationships with our suppliers. When selecting suppliers, the Group takes factors into account such as quality of products and functionality, price, reliability and anticipated market acceptance. The Group expects suppliers to observe the environmental, social, health and safety and governance considerations in their operations.

Currently we procured over 20 internationally renowned brands from our suppliers. 63% (2016: 64%) supplied goods domestically, the remaining was mainly supplies from USA and the PRC.

For hospitality, our hotel operators have many year of experience in hotel business. We have built strong relationships with our property assets managers, lenders, as well as accounting and tax advisors.

B6. Product responsibility

The marketing of information technology, mobility and related products to general public are usually devised by suppliers and the Group is also providing marketing services to our suppliers. During holidays and festivals, we work with our suppliers to offer products at promotional prices through print and media advertising campaigns.

Suppliers provide warranty on the products they supplied to the Group for distribution. Suppliers are responsible for providing or procuring the provision of in-warranty service to the end users. Generally the warranty provided by the suppliers has a term from one to three years. The Group also adopts following quality control policies on the products to be sold:

- Inventory management team performs a series of inspection upon the receipt of the products in our warehouse regarding, among others, their appearance, packaging, specification and brand logo, etc. on a sampling basis; and
- If any defects are identified, the relevant product will be returned to the supplier for replacement.

Environmental, Social and Governance Report

End users safety is always in the top priority. The Group takes speedy action together with our suppliers for any quality issues at all time.

The Group is committed to abide by the laws and regulations in relation to intellectual property protection. During the year, we have not received any cases of infringement of intellectual property rights. We are also not aware of any suspected cases of infringement of intellectual property rights of the products that we were distributed in 2017.

The Group is also committed to abide by the Personal Data (Privacy) Ordinance. Personal data shall be highly protected. Privacy policy and personal information collection statements in our websites demonstrate a commitment to safeguarding each personal data privacy. Employees are committed not to disclose confidential information, including information related to suppliers and customers whether orally or in writing or in any other media which are not publicly known.

B7. Anti-corruption

In our Code of Conduct and Whistle-blowing Policy, which defines the Group's stance on conflicts of interest, intellectual property rights, privacy and confidentiality of information, bribery, corruption and non-competition. All employees are required to adhere.

In addition, seminars would be held to update staff on any changes to regulations and to refresh their knowledge on aspects of ethical practices when applicable.

During the year, there were no incidents of corruption reported within the Group.

B8. Community

In view of the work force and size of the Group, serving the community by way of cash and in-kind donations are considered most direct and effective.

In 2017, a total donation of HK\$10,000 was made to a charitable organization in Hong Kong.

Directors' Profiles

EXECUTIVE DIRECTORS

LIM Kia Hong, aged 61, brother of Mr. Lim Kiah Meng and Madam Lim Hwee Noi, and brother-in-law of Mr. Lim Hwee Hai, is one of the co-founders of the Group. Mr. Lim graduated from University of Washington, US with a Bachelor's Degree in Business Administration. Together with a team of committed management and staff, Mr. Lim is credited with the success of transforming the Group from a small privately-owned family business in Singapore to one of the leading distributors of I.T. products in the Group's key market of Hong Kong, Singapore and Thailand and a publicly listed company on the Stock Exchange of Hong Kong. He is responsible for the corporate planning, development and public relations of the Group.

Mr. Lim is also the chairman and non-executive director of SiS Mobile Holdings Limited ("SiS Mobile"), a company whose shares are listed on Stock Exchange on 15 January 2015. Since 2004, he has also been a non-executive director of SiS Distribution (Thailand) Public Co., Ltd. ("SiS Thai"), a company whose shares are listed on the Stock Exchange of Thailand. Mr. Lim is also a director of Information Technology Consultants Limited ("ITCL"), a company whose shares are listed on The Dhaka Stock Exchange and The Chittagong Stock Exchange on 10 January 2016. He is also a director of Gold Sceptre Limited which holds 51% shareholdings in the Company as at 31 December 2017.

LIM Kiah Meng, aged 64, brother of Mr. Lim Kia Hong and Madam Lim Hwee Noi, and brother-in-law of Mr. Lim Hwee Hai, joined the Group in 1986. He has over thirty years' experience in the I.T. industry, and is responsible for the Group's operations in Hong Kong, Singapore and Japan. Mr. Lim holds a Bachelor's Degree in Commerce from Nanyang University, Singapore and a Master's Degree in International Management from the American Graduate School of International Management, US. Prior to joining the Group, Mr. Lim had six years' experience in finance and banking.

Mr. Lim is also an executive director of SiS Mobile, a company whose shares are listed on Stock Exchange of Hong Kong on 15 January 2015. Since 2013, he has also been a non-executive director of SiS Thai, a company whose shares are listed on the Stock Exchange of Thailand. Mr. Lim is also a director of ITCL, a company whose shares are listed on The Dhaka Stock Exchange and The Chittagong Stock Exchange on 10 January 2016. He is also a director of Gold Sceptre Limited which holds 51% shareholdings in the Company as at 31 December 2017.

LIM Hwee Hai, aged 68, the spouse of Madam Lim Hwee Noi, and brother-in-law of Mr. Lim Kia Hong and Mr. Lim Kiah Meng, is one of the co-founders of the Group. Mr. Lim holds a Bachelor's Degree in Commerce from Nanyang University, Singapore and a Master's Degree in Business Administration from the National University of Singapore. Prior to joining the Group, Mr. Lim had six years' experience in finance and banking. He has over thirty years' experience in the I.T. industry and is responsible for the Group's operations in Thailand and the Asia-Pacific region.

Mr. Lim is also a non-executive director of SiS Mobile, a company whose shares are listed on Stock Exchange of Hong Kong on 15 January 2015. Since 2004, he has been a non-executive director of SiS Thai, a company whose shares are listed on the Stock Exchange of Thailand. Mr. Lim is also a director of ITCL, a company whose shares are listed on The Dhaka Stock Exchange and The Chittagong Stock Exchange on 10 January 2016. Since 2013, Mr. Lim has also been an independent non-executive director of Valuemax Group Limited, a company whose shares are listed on the Stock Exchange of Singapore. He is also a director of Gold Sceptre Limited which holds 51% shareholdings in the Company as at 31 December 2017.

Directors' Profiles

LIM Hwee Noi, aged 67, the sister of Mr. Lim Kiah Meng and Mr. Lim Kia Hong, and spouse of Mr. Lim Hwee Hai, joined the Group in 1983 and is the Finance Director of the Group. Madam Lim holds a Bachelor's Degree in Commerce from Nanyang University, Singapore. She has been a Chartered Accountant in Singapore for more than thirty years. Madam Lim is also a director of ITCL, a company whose shares are listed on The Dhaka Stock Exchange and The Chittagong Stock Exchange on 10 January 2016. Since December 2017, she has been a non-executive director of SiS Thai, a company whose shares are listed on the Stock Exchange of Thailand. She is also a director of Gold Sceptre Limited which holds 51% shareholdings in the Company as at 31 December 2017.

INDEPENDENT NON-EXECUTIVE DIRECTORS

LEE Hiok Chuan, aged 83, joined the Group in 1992 and is an investment consultant in Hong Kong. Mr. Lee has over forty years' experience in finance and banking in Hong Kong.

ONG Wui Leng, aged 57, joined the Group in 2004 and has more than ten years of experience in corporate banking. She also has many years of experience in corporate finance and management. Ms. Ong graduated from the University of London, United Kingdom with a Bachelor of Science (Economics) in Management Studies and completed her Master of Practising Accounting from Monash University, Australia. Since April 2013, Ms. Ong is an independent non-executive director of Hwa Hong Corporation Limited, a company whose shares are listed on the Stock Exchange of Singapore. From 1 January 2017, Ms. Ong is also an independent non-executive director of QAF Limited, a company whose shares are listed on the Stock Exchange of Singapore.

MA Shiu Sun, Michael, aged 49, joined the Group in 2012 and holds a Bachelor of Science (Economics) from London School of Economics, University of London, a Bachelor of Laws from University of Sydney and a Postgraduate Certificate of Laws (P.C.LL) from University of Hong Kong. Mr. Ma has been a practicing lawyer for over ten years and is practicing as a partner and notary public in a Hong Kong law firm in the areas of commercial and corporate matters.

Directors' Report

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

PRINCIPAL ACTIVITIES

The Company acts as an investment trading and investment holding company and provides corporate management services. The principal activities of its subsidiaries, associates and joint ventures are set out in notes 44, 18 and 19 respectively, to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2017 are set out in the consolidated statement of profit or loss on page 43.

The directors now recommend the payment of final dividend of HK4.0 cents to the shareholders on the register of members on 6 July 2018, amounting to totally HK\$11,119,000.

BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2017 is set out on pages 6 to 9 of this Annual Report.

FINANCIAL SUMMARY

A summary of the results, assets and liabilities of the Group for the past five financial years, as extracted from the audited consolidated financial statements, is set out on page 133. The summary does not form part of the audited consolidated financial statements.

INVESTMENT PROPERTIES AND PROPERTY, PLANT AND EQUIPMENT

During the year, the Group spent HK\$35,273,000 and HK\$3,522,000 on acquisition of investment properties and property, plant and equipment respectively.

The Group has revalued all its investment properties at the year end date. The increase in fair value amounted to HK\$246,285,000, which had been credited to the consolidated statement of profit or loss directly.

Particulars of investment properties of the Group at 31 December 2017 are set out on pages 134 to 136.

Details of the movements during the year in the investment properties and property, plant and equipment of the Group are set out in notes 15 and 16 respectively to the consolidated financial statements.

SHARE CAPITAL

Details of the share capital of the Company are set out in note 33 to the consolidated financial statements.

Directors' Report

DISTRIBUTABLE RESERVES OF THE COMPANY

The Company's reserves available for distribution to shareholders as at 31 December 2017 were as follows:

	2017 HK\$'000	2016 HK\$'000
Contributed surplus	29,186	29,186
Investments reserve	9,929	3,478
Retained profits	1,064,523	1,074,713
	1,103,638	1,107,377

Under the Companies Act 1981 of Bermuda (as amended), the contributed surplus account of the Company is available for distribution. However, the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if there are reasonable grounds for believing that:

- (a) the Company is, or would after the payment be, unable to pay its liabilities as they become due; or
- (b) the realisable value of the Company's assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

DIRECTORS

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

Executive directors:

Mr. Lim Kia Hong
 Mr. Lim Kiah Meng
 Mr. Lim Hwee Hai
 Madam Lim Hwee Noi

Independent non-executive directors:

Mr. Lee Hiok Chuan
 Ms. Ong Wui Leng
 Mr. Ma Shiu Sun, Michael

In accordance with the provisions of the Company's Bye-Laws, Mr. Lim Kiah Meng and Mr. Lee Hiok Chuan retire from office and, being eligible, offer themselves for re-election.

The term of office of Mr. Lee Hiok Chuan and Ms. Ong Wui Leng, as the independent non-executive directors are the period up to his/her retirement by rotation in accordance with the Company's Bye-Laws. Mr. Ma Shiu Sun, Michael, is appointed as an independent non-executive director for an additional period of three years to 1 February 2019 and is also subject to the retirement by rotation in accordance with the Company's Bye-Laws.

Directors' Report

DIRECTORS' SERVICE CONTRACTS

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

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or in existence during the year ended 31 December 2017.

PERMITTED INDEMNITY PROVISION

Pursuant to the Company's Bye-Laws and subject to the provisions of and so far as may be permitted by the Companies' Act of Bermuda, every Director, auditor, secretary or other officer of the Company and every agent or employee of the Company shall be entitled to be indemnified by the Company out of the assets of the Company against all costs, charges, losses, expenses and liabilities which he may sustain or incur in or about the execution and discharge of his duties or in relation thereto including any liability incurred by him in defending any proceeding, civil or criminal, which relate to anything done or omitted or alleged to have been done or omitted by him as officer or employee of the Company and in which judgment is given in his favour (or the proceedings are otherwise disposed of without any finding or admission of any material breach of duty on his part) or in which he is acquitted or in connection with any application under any law for relief from liability in respect of any such act or omission in which relief is granted to him by any court of competent jurisdiction.

The Company has put in place appropriate insurance cover in respect of Directors and officers' liability throughout the year.

DIRECTORS' INTERESTS IN SHARES

At 31 December 2017, the interests of the directors and their associates, in the shares of the Company and its associated corporations, as recorded in the register maintained by the Company pursuant to Section 352 of the Securities and Futures Ordinance ("SFO"), or as otherwise notified to the Company and the Stock Exchange of Hong Kong Limited ("HKEX") pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, were as follows:

(i) Long positions in ordinary shares of HK\$0.10 each of the Company

Name of Director	Personal interests	Family interests	Joint interests (Note 1)	Corporate Interests (Note 2)	Total number of issued ordinary shares held	Percentage of the issued share capital of the Company
Lim Kia Hong (Note 4)	6,933,108	504,000	-	178,640,000	186,077,108	66.94%
Lim Kiah Meng (Note 4)	5,403,200	450,000	534,000	178,640,000	185,027,200	66.56%
Lim Hwee Hai (Note 3)	4,493,200	4,751,158	-	-	9,244,358	3.33%
Lim Hwee Noi (Note 3, 4)	4,751,158	4,493,200	-	-	9,244,358	3.33%
Lee Hiok Chuan	250,000	-	-	-	250,000	0.09%
Ong Wui Leng	250,000	-	-	-	250,000	0.09%

Directors' Report

DIRECTORS' INTERESTS IN SHARES (CONTINUED)

(i) Long positions in ordinary shares of HK\$0.10 each of the Company (continued)

Notes:

- (1) 534,000 shares are jointly held by Mr. Lim Kiah Meng and his spouse.
- (2) Gold Sceptre Limited holds 140,360,000 shares and Kelderman Limited, Valley Tiger Limited and Swan River Limited each holds 12,760,000 shares in the issued share capital of the Company. Mr. Lim Kiah Meng and his spouse and Mr. Lim Kia Hong and his spouse together own 40.50% and 39.50%, respectively of the issued share capital of Summertown Limited which owns the entire issued share capital of each of the above-mentioned companies.
- (3) 4,493,200 shares and 4,751,158 shares are beneficially owned by Mr. Lim Hwee Hai and Madam Lim Hwee Noi respectively. Mr. Lim and Madam Lim are spouse, so they have deemed interest in their spouse's shares under the SFO.
- (4) In addition to the interests disclosed above, Mr. Lim Kiah Meng and Madam Lim Hwee Noi are trustees of an estate and are holding 304,000 shares on behalf of three beneficiaries aged below 18. Out of these 304,000 shares, 200,000 shares and 104,000 shares are beneficially owned by the children of Mr. Lim Kiah Meng and Mr. Lim Kia Hong respectively, and are included in the family interests of Mr. Lim Kiah Meng and Mr. Lim Kia Hong as disclosed above.

(ii) Share Options

Directors of the Company and their associates had interest in share options under the Company's share option scheme, detail of which are set out in "Share Options" below.

(iii) Long positions in the shares and underlying shares of a subsidiary of the Company

- (a) Ordinary share of HK\$0.10 each of SiS Mobile Holdings Limited ("SiS Mobile"), which is listed on the Main Board of the HKEX (Stock Code: 1362)

Name of Director	Personal interests	Family interests	Joint interests (Note 1)	Corporate Interests (Note 2 and 3)	Total number of issued ordinary shares held	Percentage of the issued share capital of SiS Mobile
Lim Kia Hong (Note 5)	1,846,754	161,280	-	203,607,467	205,615,501	73.43%
Lim Kiah Meng (Note 5)	1,729,024	144,000	170,880	203,607,467	205,651,371	73.45%
Lim Hwee Hai (Note 4)	1,065,984	1,145,330	-	-	2,211,314	0.79%
Lim Hwee Noi (Note 4 & 5)	1,145,330	1,065,984	-	-	2,211,314	0.79%
Lee Hiok Chuan	64,000	-	-	-	64,000	0.02%
Ong Wui Leng	64,000	-	-	-	64,000	0.02%

Directors' Report

DIRECTORS' INTERESTS IN SHARES (CONTINUED)

(iii) Long positions in the shares and underlying shares of a subsidiary of the Company (continued)

- (a) Ordinary share of HK\$0.10 each of SiS Mobile Holdings Limited ("SiS Mobile"), which is listed on the Main Board of the HKEX (Stock Code: 1362) (continued)

Notes:

- (1) Shares are jointly held by Mr. Lim Kiah Meng and his spouse.
 - (2) 146,442,667 shares are registered in the name of SiS International Holdings Ltd. It is owned as to approximately 50.50% by Gold Sceptre Limited.
 - (3) Gold Sceptre Limited holds 44,915,200 shares and Kelderman Limited, Valley Tiger Limited and Swan River Limited each holds 4,083,200 shares in the issued share capital of SiS Mobile. Mr. Lim Kiah Meng and his spouse and Mr. Lim Kia Hong and his spouse together own 40.50% and 39.50%, respectively of the issued share capital of Summertown Limited which owns the entire issued share capital of each of the above-mentioned companies.
 - (4) 1,065,984 shares and 1,145,330 shares are beneficially owned by Mr. Lim Hwee Hai and Madam Lim Hwee Noi respectively. Mr. Lim and Madam Lim are spouse, so they have deemed interest in their spouse's shares under the SFO.
 - (5) In addition to the interests disclosed above, Mr. Lim Kiah Meng and Madam Lim Hwee Noi are trustees of an estate and are holding 97,280 shares on behalf of three beneficiaries aged below 18. 64,000 shares and 33,280 shares are beneficially owned by the children of Mr. Lim Kiah Meng and Mr. Lim Kia Hong respectively, and are included in the family interests of Mr. Lim Kiah Meng and Mr. Lim Kia Hong as disclosed above.
- (b) Ordinary share of Baht 1 each of SiS Distribution (Thailand) Public Company Limited ("SiS Thai"), which is listed in the Stock Exchange of Thailand

Name of Director	Personal interests	Corporate Interests (Note)	Total number of issued ordinary shares held in SiS Thai	Approximate% of issued share capital of SiS Thai
Lim Kia Hong	241,875	224,510,470	224,752,345	63.60%
Lim Hwee Hai	244,687	–	244,687	0.07%

Note:

The Company indirectly holds 224,510,470 ordinary shares of the issued capital of SiS Thai. As disclosed in (i) above, Mr. Lim Kia Hong and his family has total interest of 66.94% in the Company, therefore Mr. Lim has deemed corporate interest in SiS Thai under the SFO.

Directors' Report

DIRECTORS' INTERESTS IN SHARES (CONTINUED)

(iv) Share options of SiS Mobile, a subsidiary of the Company

On 16 December 2014 by written resolution, SiS Mobile adopted a share option scheme ("Scheme") pursuant to which selected participants may be granted options to subscribe for shares as incentive or rewards for their service rendered to the SiS Mobile group and any entity in which any member of the group holds any equity interest.

The purpose of the Scheme is to provide an incentive for any director, employee and qualified participant to work with commitment towards enhancing the value of SiS Mobile and its shares for the benefit of its shareholders, and to maintain or attract business relationship with the qualified participants whose contributions are or may be beneficial to the growth of the group. Directors believe that Scheme adopted by SiS Mobile enables the group to recruit and retain high caliber executives and employees.

The terms of the Scheme comply with the provisions of Chapter 17 of the Listing Rules.

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of SiS Mobile in issue at the date when the Scheme was adopted. SiS Mobile may seek approval by its shareholders in general meeting to refresh the limit on the number of shares to be issued upon exercise of all outstanding options granted and yet to be exercised to not exceeding such number of shares as shall represent 30% of the shares in issue from time to time. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of SiS Mobile in issue at any point in time, without prior approval from its shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of SiS Mobile's share capital or with a value in excess of HK\$5 million must be approved in advance by its shareholders.

Options granted must be taken up within thirty business days from the offer letter together with a payment of HK\$100 as consideration of grant. Options may be exercised in a period of time as set out in the offer letter to each grantee. The exercise price is determined by the directors of SiS Mobile, and will not be less than the higher of the closing price of its shares on the date of grant, and the average closing price of the shares for the five business days immediately preceding the date of grant.

Directors' Report

DIRECTORS' INTERESTS IN SHARES (CONTINUED)

(iv) Share options of SiS Mobile, a subsidiary of the Company (continued)

Date of grant	Vesting period	Exercisable period	Exercise price HK\$	Outstanding at 31 December 2017
Directors and their associates:				
Lim Kia Hong				
25.06.2015	26.06.2015-31.12.2015	01.01.2016-30.06.2023	2.36	400,000
25.06.2015	26.06.2015-31.12.2016	01.01.2017-30.06.2023	2.36	400,000
25.06.2015	26.06.2015-31.12.2017	01.01.2018-30.06.2023	2.36	400,000
Lim Kiah Meng				
25.06.2015	26.06.2015-31.12.2015	01.01.2016-30.06.2023	2.36	400,000
25.06.2015	26.06.2015-31.12.2016	01.01.2017-30.06.2023	2.36	400,000
25.06.2015	26.06.2015-31.12.2017	01.01.2018-30.06.2023	2.36	400,000
Lim Hwee Hai				
25.06.2015	26.06.2015-31.12.2015	01.01.2016-30.06.2023	2.36	400,000
25.06.2015	26.06.2015-31.12.2016	01.01.2017-30.06.2023	2.36	400,000
25.06.2015	26.06.2015-31.12.2017	01.01.2018-30.06.2023	2.36	400,000
Lim Hwee Noi				
25.06.2015	26.06.2015-31.12.2015	01.01.2016-30.06.2023	2.36	200,000
25.06.2015	26.06.2015-31.12.2016	01.01.2017-30.06.2023	2.36	200,000
25.06.2015	26.06.2015-31.12.2017	01.01.2018-30.06.2023	2.36	200,000
				4,200,000

(v) Long positions in the shares and underlying shares of associated corporations of the Company

Ordinary share of 10 Taka each of Information Technology Consultants Ltd. ("ITCL"), which is incorporated in Bangladesh, and is listed in The Dhaka Stock Exchange and The Chittagong Stock Exchange.

Name of Director	Corporate Interests (Note)	Approximate % of issued share capital of ITCL
Lim Kiah Meng	47,911,029	46.05%

Note:

A related corporation which is jointly owned by Mr. Lim Kiah Meng and his spouse hold 8,790,600 ordinary shares in ITCL, while the Company indirectly holds 39,120,429 ordinary shares. As disclosed in (i) above, Mr. Lim Kiah Meng and his family has total interest of 66.56% in the Company, therefore Mr. Lim has deemed corporate interest of 39,120,429 in ITCL under the SFO.

Other than as disclosed above, none of the directors, nor their associates, had any interests or short positions in any shares and underlying shares or debentures of the Company or any of its associated corporations at 31 December 2017.

Directors' Report

SHARE OPTIONS

A new share option scheme was adopted by the Company on 26 May 2017 (the "New Scheme"), while the old share option scheme adopted by the Company on 21 May 2007 had expired on 20 May 2017 (the "Old Scheme"). The Old Scheme and New scheme are collectively referred as SiS International Share Option Scheme (the "SiS International Share Option Scheme"). Pursuant to the SiS International Share Option Scheme, the Company may grant options to qualified persons, including employees and directors of the Company, its subsidiaries and associates, and third parties with a view to maintain business relationship with such persons to subscribe for shares of the Company.

The total number of shares in respect of which options may be granted under the New Scheme is not permitted to exceed 10% of the shares of the Company in issue at the date when the New Scheme was adopted. The Company may seek approval by its shareholders in general meeting to refresh the limit on the number of shares to be issued upon exercise of all outstanding options granted and yet to be exercised to not exceeding such number of shares as shall represent 30% of the shares in issue from time to time. The number of shares in respect of which options may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors in excess of 0.1% of the Company's share capital or with a value in excess of HK\$5 million must be approved in advance by the Company's shareholders.

Options granted must be taken up within ten business days from the offer letter together with a payment of HK\$100 as consideration of grant. Options may be exercised in a period of time as set out in the offer letter to each grantee. The exercise price is determined by the directors of the Company, and will not be less than the higher of the closing price of the Company's shares on the date of grant, and the average closing price of the shares for the five business days immediately preceding the date of grant.

The following table discloses movements in the Company's share options during the year:

Date of grant	Vesting period	Exercise period	Exercise price HK\$	Number of share options		
				Outstanding at 1 January 2017	Exercised during the year	Outstanding at 31 December 2017
Directors and their associates:						
Lim Kia Hong						
26.06.2015	27.06.2015-31.12.2015	01.01.2016-26.06.2025	4.47	50,000	-	50,000
26.06.2015	27.06.2015-31.12.2016	01.01.2017-26.06.2025	4.47	50,000	-	50,000
26.06.2015	27.06.2015-31.12.2017	01.01.2018-26.06.2025	4.47	50,000	-	50,000

Directors' Report

SHARE OPTIONS (CONTINUED)

Date of grant	Vesting period	Exercise period	Exercise price HK\$	Number of share options		
				Outstanding at 1 January 2017	Exercised during the year	Outstanding at 31 December 2017
Lim Kiah Meng						
26.06.2015	27.06.2015-31.12.2015	01.01.2016-26.06.2025	4.47	50,000	-	50,000
26.06.2015	27.06.2015-31.12.2016	01.01.2017-26.06.2025	4.47	50,000	-	50,000
26.06.2015	27.06.2015-31.12.2017	01.01.2018-26.06.2025	4.47	50,000	-	50,000
Lim Hwee Hai						
26.06.2015	27.06.2015-31.12.2015	01.01.2016-26.06.2025	4.47	50,000	-	50,000
26.06.2015	27.06.2015-31.12.2016	01.01.2017-26.06.2025	4.47	50,000	-	50,000
26.06.2015	27.06.2015-31.12.2017	01.01.2018-26.06.2025	4.47	50,000	-	50,000
Lim Hwee Noi						
26.06.2015	27.06.2015-31.12.2015	01.01.2016-26.06.2025	4.47	50,000	-	50,000
26.06.2015	27.06.2015-31.12.2016	01.01.2017-26.06.2025	4.47	50,000	-	50,000
26.06.2015	27.06.2015-31.12.2017	01.01.2018-26.06.2025	4.47	50,000	-	50,000
Lee Hiok Chuan						
26.06.2015	27.06.2015-31.12.2015	01.01.2016-26.06.2025	4.47	40,000	-	40,000
26.06.2015	27.06.2015-31.12.2016	01.01.2017-26.06.2025	4.47	40,000	-	40,000
26.06.2015	27.06.2015-31.12.2017	01.01.2018-26.06.2025	4.47	40,000	-	40,000
Ong Wui Leng						
26.06.2015	27.06.2015-31.12.2015	01.01.2016-26.06.2025	4.47	40,000	-	40,000
26.06.2015	27.06.2015-31.12.2016	01.01.2017-26.06.2025	4.47	40,000	-	40,000
26.06.2015	27.06.2015-31.12.2017	01.01.2018-26.06.2025	4.47	40,000	-	40,000

Directors' Report

SHARE OPTIONS (CONTINUED)

Date of grant	Vesting period	Exercise period	Exercise price HK\$	Number of share options		
				Outstanding at 1 January 2017	Exercised during the year	Outstanding at 31 December 2017
Ma Shiu Sun, Michael						
26.06.2015	27.06.2015-31.12.2015	01.01.2016-26.06.2025	4.47	50,000	-	50,000
26.06.2015	27.06.2015-31.12.2016	01.01.2017-26.06.2025	4.47	50,000	-	50,000
26.06.2015	27.06.2015-31.12.2017	01.01.2018-26.06.2025	4.47	50,000	-	50,000
Total directors and their associates				<u>990,000</u>	<u>-</u>	<u>990,000</u>
Employees and other qualified persons:						
20.08.2007	21.08.2007-18.02.2008	18.02.2008-20.05.2017	1.72	133,332	(133,332)	-
20.08.2007	21.08.2007-18.02.2009	18.02.2009-20.05.2017	1.72	133,334	(133,334)	-
20.08.2007	21.08.2007-18.02.2010	18.02.2010-20.05.2017	1.72	133,334	(133,334)	-
26.06.2015	27.06.2015-31.12.2015	01.01.2016-26.06.2025	4.47	420,000	-	420,000
26.06.2015	27.06.2015-31.12.2016	01.01.2017-26.06.2025	4.47	420,000	-	420,000
26.06.2015	27.06.2015-31.12.2017	01.01.2018-26.06.2025	4.47	420,000	-	420,000
Total employees and other qualified persons				<u>1,660,000</u>	<u>(400,000)</u>	<u>1,260,000</u>
Total number of share options				<u>2,650,000</u>	<u>(400,000)</u>	<u>2,250,000</u>

Other than disclosed above, no share options were granted, forfeited or expired during the financial year.

The weighted average closing prices of the Company's shares immediately before the dates on which the share options were exercised were HK\$4.00.

Directors' Report

ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

Other than the option holdings disclosed above, at no time during the year was the Company, its ultimate holding company, or any of its subsidiaries or fellow subsidiaries, a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN TRANSACTION, ARRANGEMENT OR CONTRACTS OF SIGNIFICANCE AND CONNECTED TRANSACTIONS

No transaction, arrangement and/or contracts of significance to which the Company, its ultimate holding company or any of its subsidiaries or fellow subsidiaries was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2017, other than the interests disclosed above in respect of Directors and chief executives, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows and the following shareholders had notified the Company of relevant interests and long positions in the issued share capital of the Company.

Long positions in ordinary shares of HK\$0.10 each of the Company

Name of Shareholder	Personal interests	Family Interests (Note 1)	Corporate interests (Note 2)	Total number of issued ordinary shares held	Percentage of the issued share capital of the Company
Yeo Seng Chong	700,000	1,220,000	12,150,000	14,070,000	5.06%
Lim Mee Hwa	1,220,000	700,000	12,150,000	14,070,000	5.06%

Notes:

- (1) Mr. Yeo Seng Chong and Madam Lim Mee Hwa are spouse so they have deemed interest in their spouse's shares under the SFO.
- (2) Mr. Yeo Seng Chong and Madam Lim Mee Hwa each have 50% direct interest in a corporation which holds the shares of the Company as an investment manager.

Other than as disclosed above, the Company has not been notified of any other relevant interests or short positions in the issued share capital of the Company.

Directors' Report

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate revenue attributable to the Group's five largest customers was less than 30% by value of the Group's total goods sales during the year, with the largest customer accounted for 5%. The five largest suppliers of the Group comprised approximately 72% by value of the Group's total purchases during the year, with the largest supplier accounted for 39%.

At no time during the year did a director, an associate of a director or a shareholder (which to the knowledge of the directors owns more than 5% of the Company's issued share capital) has an interest in any of the Group's five largest customers and suppliers.

EMOLUMENT POLICY AND DIRECTORS' REMUNERATION

The Company has established the Remuneration Committee in September 2005.

The emoluments of the directors of the Company are reviewed and approved by the Remuneration Committee, having regard to the Group's operating results, individual performance and comparable market trends.

The Company has adopted a share option scheme as an incentive to directors and eligible employees, details of the scheme is set out in note 40 to the consolidated financial statements.

CHARITABLE DONATIONS

During the year, the Group made charitable amounting to HK\$10,000.

PRE-EMPTIVE RIGHTS

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

CORPORATE GOVERNANCE AND MODEL CODE

The Company has complied with the Code of Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Listing Rules throughout the year ended 31 December 2017, except for the Code A.2.1, A.4.1 and A.4.2 as disclosed in the Corporate Governance Report of the Company.

The Company has adopted a code of conduct regarding securities transactions by directors on terms no less exacting than the required standard set out in Appendix 10 to the Listing Rules (the "Model Code"). Having made specific enquiry of all directors, all directors confirmed they have complied with the required standard set out in the Model Code and the code of conduct adopted by the Company during the year.

The Company has received, from each of the independent non-executive directors, an annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive directors are independent.

Directors' Report

COMPLIANCE WITH RELEVANT LAWS AND REGULATION

The Company has complied with relevant laws and regulations that have significant impact on the Company including the laws in Bermuda, the Hong Kong Companies Ordinance, SFO, and the Listing Rules.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31 December 2017.

AUDITORS

A resolution will be submitted to the annual general meeting to re-appoint Messrs. Deloitte Touche Tohmatsu as auditors of the Company.

On behalf of the Board
SiS International Holdings Limited

LIM Kiah Meng

DIRECTOR

Hong Kong, 16 March 2018

Independent Auditor's Report

Deloitte.

德勤

TO THE SHAREHOLDERS OF SiS INTERNATIONAL HOLDINGS LIMITED

新龍國際集團有限公司

(incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of SiS International Holdings Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 43 to 132, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR OPINION

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

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional 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.

Independent Auditor's Report

KEY AUDIT MATTERS (CONTINUED)

Key audit matter

How our audit addressed the key audit matter

Valuation of investment properties

We identified the valuation of investment properties as a key audit matter due to the significance of the balance to the consolidated financial statements as a whole, combined with the significant judgements and estimates associated with determining the fair values.

The investment properties are located in Hong Kong, Japan and Singapore and carried at HK\$4,081,883,000 as at 31 December 2017 and represents 54.4% of total assets in the consolidated financial statements of the Group as at 31 December 2017. Gain from changes in fair value of the investment properties HK\$246,285,000 was recognised in the consolidated statement of profit or loss for the year then ended.

As disclosed in note 15 to the consolidated financial statement, all of the Group's investment properties are held at fair value based on the valuations performed by independent qualified professional valuers (the "Valuers"). The valuations of investment properties are dependent on certain key inputs that require significant judgments and estimates, including unit sale rate and capitalisation rate.

Our procedures in relation to valuation of the investment properties included:

- Evaluating the competence, capabilities and objectivity of the Valuers and obtaining an understanding of their scope of work and their terms of engagement;
- Assessing the reasonableness of the valuation techniques used by the management and the Valuers based on the relevant accounting requirements and industry norms;
- Evaluating the reasonableness of the key inputs, including unit sale rate and capitalisation rate adopted by the management and the Valuers, on a sampling basis, by comparing the key inputs to relevant market data based on our knowledge of the property markets; and
- Assessing the accuracy of the rental income provided by the management to the Valuers by agreeing the rental income to the respective underlying tenancy agreements, on a sample basis.

Independent Auditor's Report

KEY AUDIT MATTERS (CONTINUED)

Key audit matter

How our audit addressed the key audit matter

Assessment of allowance on inventories

We identified the assessment of allowance on inventories as a key audit matter due to the use of judgements in identifying obsolete and slow moving inventories and determining the net realisable value ("NRV") which are based on the ageing, conditions and marketability of the inventories.

NRV represents the estimated selling price for inventories less all estimated costs necessary to make the sale. The Group carried out the inventory review at the end of the reporting period and made the necessary allowance on obsolete and slow moving items so as to write off or write down inventories to their NRVs. As disclosed in the consolidated statement of financial position and note 21, the carrying amount of inventories is HK\$547,985,000, net of allowance on obsolete and slow moving inventories of HK\$4,340,000 as at 31 December 2017.

Our procedures in relation to assessing the allowance on inventories included:

- Obtaining an understanding of how allowance on obsolete and slow moving inventories is estimated by the management;
- Testing the accuracy of the ageing of the inventories listed in the system generated report to the goods received notes on a sample basis;
- Discussing with the management on the basis of determining the NRV and evaluating and assessing the condition and marketability of the inventories, on a sample basis; and
- Assessing the sufficiency of allowance on obsolete and slow moving inventories made by management where the estimated NRV is lower than the cost with reference to the latest selling price, on a sample basis.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include 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.

Independent Auditor's Report

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE 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 are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAAs, we exercise professional judgment and maintain professional skepticism 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.

Independent Auditor's Report

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

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

We communicate with those charged with governance 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 those charged with governance 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 those charged with governance, 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 the independent auditor's report is Tan Wei Ming.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
16 March 2018

Consolidated Statement of Profit or Loss

FOR THE YEAR ENDED 31 DECEMBER 2017

	<i>Notes</i>	2017 HK\$'000	2016 HK\$'000
Revenue	6	1,010,768	1,128,417
Cost of sales		(823,856)	(950,589)
Gross profit		186,912	177,828
Other income		11,340	12,224
Other gains and losses	7	5,543	(28,066)
Distribution costs		(28,138)	(29,114)
Administrative expenses		(93,388)	(86,846)
Gain from changes in fair value of investment properties	15	246,285	232,057
Gain on re-measurement of previously held interest in associate	35	118,832	–
Share of results of associates		34,623	28,214
Finance costs	8	(34,119)	(28,645)
Profit before taxation		447,890	277,652
Income tax expense	9	(77,746)	(24,919)
Profit for the year	10	370,144	252,733
Profit for the year attributable to:			
Owners of the Company		367,835	236,209
Non-controlling interests		2,309	16,524
		370,144	252,733
		HK Cents	HK Cents
Earnings per share	14		
Basic		132.4	85.1
Diluted		132.3	85.0

Consolidated Statement of Profit or Loss and Other Comprehensive Income

FOR THE YEAR ENDED 31 DECEMBER 2017

	2017 HK\$'000	2016 HK\$'000
Profit for the year	370,144	252,733
Other comprehensive income (expense):		
Items that may be reclassified to profit or loss		
Changes in fair value of available-for-sale investments	51,047	48,187
Realisation of investments reserve upon disposal of available-for-sale investments	(26,609)	(2,618)
Exchange realignment arising on translation of foreign operations		
– Subsidiaries	25,624	(260)
– Associates	16,510	2,672
Realisation of translation reserve upon disposal of associate	(16,162)	–
Other comprehensive income for the year	50,410	47,981
Total comprehensive income for the year attributable to:		
Owners of the Company	415,325	287,832
Non-controlling interests	5,229	12,882
	420,554	300,714

Consolidated Statement of Financial Position

AT 31 DECEMBER 2017

	<i>Notes</i>	2017 HK\$'000	2016 HK\$'000
Non-current assets			
Investment properties	15	4,081,883	3,723,972
Property, plant and equipment	16	353,770	322,611
Goodwill	17	126,406	–
Interests in associates	18	92,966	267,185
Interests in joint ventures	19	–	–
Available-for-sale investments	20	225,033	158,853
Deferred tax assets	31	68,778	11,139
Deposits paid		3,180	–
		4,952,016	4,483,760
Current assets			
Inventories	21	547,985	51,961
Trade and other receivables, deposits and prepayments	22	855,243	145,413
Amounts due from associates	23	16,718	3,312
Tax recoverable		14	2,076
Investments held-for-trading	24	16,661	13,084
Pledged deposits	25	466,337	331,948
Bank balances and cash	25	652,152	644,891
		2,555,110	1,192,685
Current liabilities			
Trade payables, other payables and accruals	26	711,881	141,253
Derivative financial instruments	27	536	–
Obligations under finance leases	28	4,173	3,876
Tax payable		19,037	16,088
Bank borrowings	29	1,667,093	1,084,362
Bonds	30	–	17,396
Rental deposits	32	17,615	18,000
		2,420,335	1,280,975
Net current assets (liabilities)		134,775	(88,290)
Total assets less current liabilities		5,086,791	4,395,470

Consolidated Statement of Financial Position

AT 31 DECEMBER 2017

	<i>Notes</i>	2017 HK\$'000	2016 HK\$'000
Non-current liabilities			
Bank borrowings	29	965,581	957,254
Bonds	30	268,034	256,209
Obligations under finance leases	28	29,082	31,816
Deferred tax liabilities	31	168,288	88,982
Rental deposits	32	114,748	110,423
Retirement benefits obligations	41	10,227	–
		1,555,960	1,444,684
Net assets		3,530,831	2,950,786
Capital and reserves			
Share capital	33	27,797	27,757
Share premium		73,400	72,533
Other reserves		52,732	4,952
Retained profits		3,082,233	2,722,737
Equity attributable to owners of the Company		3,236,162	2,827,979
Non-controlling interests		294,669	122,807
Total equity		3,530,831	2,950,786

The consolidated financial statements on pages 43 to 132 were approved and authorised for issue by the Board of Directors on 16 March 2018 and are signed on its behalf by:

LIM KIA HONG
DIRECTOR

LIM KIAH MENG
DIRECTOR

Consolidated Statement of Changes in Equity

FOR THE YEAR ENDED 31 DECEMBER 2017

	Attributable to the owners of the Company										Non-controlling interests	Total
	Share capital	Share premium	Investments reserve	Translation reserve	Property revaluation reserve	Contributed surplus	Share options reserve	Other reserve	Retained profits	Total		
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000 (Note 1)	HK\$'000	HK\$'000 (Note 2)	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2016	27,747	72,313	10,504	(46,815)	933	2,860	2,143	(17,558)	2,494,855	2,546,982	52,181	2,599,163
Profit for the year	-	-	-	-	-	-	-	-	236,209	236,209	16,524	252,733
Other comprehensive income (expense) for the year	-	-	45,569	6,054	-	-	-	-	-	51,623	(3,642)	47,981
Total comprehensive income for the year	-	-	45,569	6,054	-	-	-	-	236,209	287,832	12,882	300,714
Contribution from non-controlling interests	-	-	-	-	-	-	-	-	-	-	55,059	55,059
Issue of shares upon exercise of share options	10	220	-	-	-	-	(58)	-	-	172	-	172
Recognition of equity-settled share-based payment	-	-	-	-	-	-	1,320	-	-	1,320	2,685	4,005
Dividend recognised as distribution (note 13)	-	-	-	-	-	-	-	-	(8,327)	(8,327)	-	(8,327)
At 31 December 2016	27,757	72,533	56,073	(40,761)	933	2,860	3,405	(17,558)	2,722,737	2,827,979	122,807	2,950,786
Profit for the year	-	-	-	-	-	-	-	-	367,835	367,835	2,309	370,144
Other comprehensive income for the year	-	-	24,321	23,169	-	-	-	-	-	47,490	2,920	50,410
Total comprehensive income for the year	-	-	24,321	23,169	-	-	-	-	367,835	415,325	5,229	420,554
Non-controlling interest arising on acquisition of subsidiaries (note 35)	-	-	-	-	-	-	-	-	-	-	161,380	161,380
Contribution from non-controlling interests	-	-	-	-	-	-	-	-	-	-	5,917	5,917
Issue of shares upon exercise of share options	40	867	-	-	-	-	(219)	-	-	688	-	688
Recognition of equity-settled share-based payment	-	-	-	-	-	-	509	-	-	509	1,059	1,568
Dividends paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	(1,723)	(1,723)
Dividend recognised as distribution (note 13)	-	-	-	-	-	-	-	-	(8,339)	(8,339)	-	(8,339)
At 31 December 2017	27,797	73,400	80,394	(17,592)	933	2,860	3,695	(17,558)	3,082,233	3,236,162	294,669	3,530,831

Note 1: Contributed surplus represents the excess of the nominal value of the shares of the acquired subsidiaries over the nominal value of the Company's shares issued for the acquisition upon the Group reorganisation in preparation for the listing of the Company's shares in the year 1992.

Note 2: Other reserve represents the difference between the fair value of the consideration (net of transaction cost) and the carrying amount of the reduction in the Company's interest in SiS Mobile Holding Limited ("SiS Mobile"), arising from the listing of SiS Mobile's shares on the Stock Exchange of Hong Kong Limited on 15 January 2015.

Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 31 DECEMBER 2017

	2017 HK\$'000	2016 HK\$'000
Operating activities		
Profit before taxation	447,890	277,652
Adjustments for:		
(Reversal of) allowance for doubtful debts	(568)	1,360
(Reversal of) allowance for obsolete and slow moving inventories	(1,047)	3,008
Impairment loss on available-for-sale investments	7,318	–
Impairment loss on interest in associate	219	–
Provision for litigation and other related expense	30,000	–
Dividend income from available-for-sale investments	(361)	(112)
Depreciation of property, plant and equipment	8,128	5,093
Finance costs	34,119	28,645
Loss from changes in fair value of derivative financial instruments	–	40,116
Gain on disposal of available-for-sale investments	(26,609)	(2,618)
Gain from changes in fair value of investment properties	(246,285)	(232,057)
Interest income	(3,237)	(1,920)
(Gain) loss on disposal of property, plant and equipment	(376)	8
Loss on disposal of subsidiaries	97	24
Share of results of associates	(34,623)	(28,214)
Gain on re-measurement of previously held interest in associate	(118,832)	–
Equity-settled share-based payment	1,568	4,005
Gain on liquidation of a joint venture	–	(10,987)
Operating cash flows before movements in working capital	97,401	84,003
Decrease in inventories	5,737	31,603
Decrease (increase) in trade and other receivables, deposits and prepayments	15,547	(42,422)
Decrease in amount due from a joint venture	–	2,065
Increase in investments held-for-trading	(3,577)	(1,171)
(Decrease) increase in rental deposits	(1,439)	44,207
Increase in trade payables, other payables and accruals	10,867	27,773
Net settlement on maturity of derivate financial instruments	–	(45,644)
Cash from operations	124,536	100,414
Hong Kong Profits Tax paid	–	(1,705)
Hong Kong Profits Tax refund	2,042	–
Overseas Tax paid	(4,468)	(4,997)
Net cash from operating activities	122,110	93,712

Consolidated Statement of Cash Flows

FOR THE YEAR ENDED 31 DECEMBER 2017

	Note	2017 HK\$'000	2016 HK\$'000
Investing activities			
Acquisition of investment properties		(35,273)	(681,883)
Dividend received from an associate		15,237	10,980
Dividend received from available-for-sale investments		361	112
Repayment from (advance to) associates		446	(127)
Interest received		3,237	1,920
Placement of pledged deposits		(212,580)	(103,375)
Withdrawal of pledged deposits		78,191	226,456
Consideration of acquisition of subsidiaries	35	(49,473)	–
Proceeds from disposal of available-for-sale investments		35,630	9,520
Purchase of available-for-sale investments		(55,507)	(27,797)
Purchase of property, plant and equipment		(3,522)	(198,539)
Cash received from the liquidation of a joint venture		–	10,987
Proceeds from disposal of investment properties		29,087	–
Proceeds from disposal of property, plant and equipment		811	606
Net cash used in investing activities		(193,355)	(751,140)
Financing activities			
Dividends paid to ordinary shareholders		(8,339)	(8,327)
Dividends paid to non-controlling interests		(1,723)	–
Interest paid		(34,119)	(28,645)
Proceeds from issue of new shares		688	172
Proceeds from issue of bonds		–	149,643
Repayment of bonds		(17,978)	–
New bank loans raised		337,609	1,385,178
Repayment of bank loans		(220,613)	(627,950)
Repayment of finance lease obligations		(4,057)	(3,763)
Contribution from non-controlling interest		5,917	55,059
Net cash from financing activities		57,385	921,367
Net (decrease) increase in cash and cash equivalents		(13,860)	263,939
Cash and cash equivalents at 1 January		644,891	389,916
Effect of foreign exchange rate changes		21,121	(8,964)
Cash and cash equivalents at 31 December, represented by bank balances and cash		652,152	644,891

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2017

1. GENERAL

The Company was incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "HKEX"). Its parent is Gold Sceptre Limited and its ultimate parent is Summertown Limited, a company controlled by the executive directors of the Company. Both holding companies are incorporated in the British Virgin Islands. The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate information" section of the annual report.

The Company acts as an investment trading and investment holding company and provides corporate management services. The principal activities of its principal subsidiaries are set out in note 44.

The consolidated financial statements are presented in Hong Kong Dollar ("HK\$"), which is also the functional currency of the Company.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRS 12	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle

Except as described below, the application of the amendments to HKFRSs in the current year has had no material impact on the Group's performance and financial positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

Amendments to HKAS 7 Disclosure initiative

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the changes from financing cash flows to be disclosed.

A reconciliation between the opening and closing balances of these items is provided in note 38. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the additional disclosure in note 38, the application of these amendments has had no impact on the Group's consolidated financial statements.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2017

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (CONTINUED)

New and revised HKFRSs in issue but not yet effective

The Group has not early applied the following new and amendments to HKFRSs that have been issued but are not yet effective:

HKFRS 9	Financial Instruments ¹
HKFRS 15	Revenue from Contracts with Customers and the Related Amendments ¹
HKFRS 16	Leases ²
HKFRS 17	Insurance Contracts ⁴
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration ¹
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments ²
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
Amendments to HKFRS 9	Prepayment Features with Negative Compensation ²
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture ³
Amendments to HKAS 28	Long-term interest in Associates and Joint Ventures ²
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014-2016 Cycle ¹
Amendments to HKAS 40	Transfers of Investment Property ¹
Amendments to HKFRSs	Annual improvements to HKFRSs 2015-2017 cycles 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 a date to be determined.

⁴ Effective for annual periods beginning on or after 1 January 2021.

Except as mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs and Interpretations will have no material impact on the consolidated financial statements in the foreseeable future.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2017

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (CONTINUED)

New and revised HKFRSs in issue but not yet effective (continued)

HKFRS 9 *Financial Instruments*

HKFRS 9 introduced new requirements for the classification and measurement of financial assets, and impairment requirements for financial assets.

Key requirements of HKFRS 9 which are relevant to the Group are:

- All recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income (“FVTOCI”). All other financial assets are measured at their fair value at subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held-for-trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

Based on the Group’s financial instruments and risk management policies as at 31 December 2017, the directors of the Company anticipate the following potential impact on initial application of HKFRS 9:

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2017

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (CONTINUED)

New and revised HKFRSs in issue but not yet effective (continued)

HKFRS 9 *Financial Instruments* (continued)

Classification and measurement:

- The Group has designated equity securities classified as available-for-sale investments carried at cost less impairment as disclosed in note 20 to be measured at FVTOCI under HKFRS 9 and the Group will measure these securities at fair value at the end of subsequent reporting periods with fair value gains or losses to be recognised as other comprehensive income and accumulated in the investments reserve and these investments are not subject to impairment. The Group's listed equity securities classified as available-for-sale investments as disclosed in note 20 will be measured at fair value with subsequent fair value gains or losses to be recognised in profit or loss under HKFRS 9. Upon initial application of HKFRS 9, investments revaluation reserve of HK\$80,394,000 related to these available-for-sale investments will be transferred to retained profits at 1 January 2018.

Except for financial assets which are subject to the expected credit loss model upon application of HKFRS 9, all other financial assets and financial liabilities will continue to be measured on the same bases as are currently measured under HKAS 39.

Impairment

In general, the directors of the Company anticipate that the application of the expected credit loss model of HKFRS 9 will result in earlier provision of credit losses which are not yet incurred in relation to the Group's financial assets measured at amortised costs that are subject to the impairment provisions upon application of HKFRS 9 by the Group. The Group applied simplified approach to measure allowance at an amount equal to lifetime expected credit losses for trade receivables that do not contain significant financing component.

Based on the assessment by the directors of the Company, if the expected credit loss model were to be applied by the Group, the accumulated amount of impairment loss to be recognised by Group as at 1 January 2018 would be increased as compared to the accumulated amount recognised under HKAS 39 mainly attributable to expected credit losses provision on financial assets measured at amortised costs. Such further impairment and the related deferred tax recognised under expected credit loss model would reduce the opening retained profits at 1 January 2018.

HKFRS 15 *Revenue from Contracts with Customers*

HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related interpretations when it becomes effective.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2017

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (CONTINUED)

New and revised HKFRSs in issue but not yet effective (continued)

HKFRS 15 Revenue from Contracts with Customers (continued)

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when ‘control’ of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

In 2016, the HKICPA issued Clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The directors of the Company anticipate that the application of HKFRS 15 in the future may result in more disclosures, however, the directors of the Company do not anticipate that the application of HKFRS 15 will have a material impact on the timing and amounts of revenue recognised in the respective reporting periods.

HKFRS 16 Leases

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 *Leases* and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2017

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (CONTINUED)

New and revised HKFRSs in issue but not yet effective (continued)

HKFRS 16 Leases (continued)

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents operating lease payments as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group.

In contrast to lessee accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2017, the Group has non-cancellable operating lease commitments of HK\$62,757,000 as disclosed in note 39. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases.

In addition, the Group currently considers refundable rental deposits paid of HK\$3,168,000 and refundable rental deposits received of HK\$132,363,000 as rights and obligations under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost. Adjustments to refundable rental deposits paid would be included in the initial measurement of right-of-use assets. Adjustments to refundable rental deposits received would be considered as advance lease payments.

Furthermore, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2017

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the HKSE and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis, except for investment properties and certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange of goods and services.

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, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2 *Share-based Payment*, leasing transactions that are within the scope of HKAS 17 *Lease*, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 *Inventories* or value in use in HKAS 36 *Impairment of Asset*.

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.

For financial instruments and investment properties which are transferred at fair value and a valuation technique that unobservable inputs are to be used to measure fair value in subsequent periods, the valuation technique is calibrated so that the results of the valuation technique equals the transaction price.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2017

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

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 listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2017

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Basis of consolidation (continued)

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's relevant components of equity and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries, including re-attribution of relevant reserves between the Group and the non-controlling interests according to the Group's and the non-controlling interests' proportionate interests.

Any difference between the amount by which the non-controlling interests are adjusted, and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised. A gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2017

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 *Income Taxes* and HKAS 19 *Employee Benefits* respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 *Share-based Payment* at the acquisition date; and
- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree over the net amount of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed as at acquisition date. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation are initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another HKFRS.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2017

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the cash-generating unit (or group of cash-generating units) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit (or group of cash-generating units).

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal (or any of the cash-generating unit within group of cash-generating units in which the Group monitors goodwill).

Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2017

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments in associates and joint ventures (continued)

The results and assets and liabilities of associates and joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates and joint ventures used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, an investment in an associate or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. Changes in net assets of the associate/joint venture other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of an associate or joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of that associate or joint venture.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of HKAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investments in associates and joint ventures. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

Where a group entity transacts with an associate or a joint venture of the Group (such as a sale), profits and losses resulting from the transactions with the associate or joint venture are recognised in the Group's consolidated financial statements only to the extent of the interest in the associate that are not related to the Group.

When the Group ceases to have significant influence over an associate or joint control over a joint venture, or obtains control over an associate or joint venture through acquisition of additional interests, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2017

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities as described below.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established (provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably).

Service income and revenue from hotel operation are recognised when the services are provided.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

The Group's accounting policy for recognition of revenue from operating leases is described in the accounting policy for leasing below.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

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

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2017

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leasing (continued)

The Group as a lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss.

Operating lease payments, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Property, plant and equipment

Property, plant and equipment other than freehold land are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any. Freehold land is stated at cost less accumulated impairment losses.

Depreciation is recognised so as to write off the cost of assets less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

If an item of property, plant and equipment becomes an investment property because its use has changed as evidenced by end of owner-occupation, any difference between the carrying amount and the fair value of that item at the date of transfer is recognised in other comprehensive income and accumulated in property revaluation reserve. On the subsequent sale or retirement of the asset, the relevant revaluation reserve will be transferred directly to retained profits.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2017

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property, plant and equipment (continued)

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets. However, when there is no reasonable certainty that ownership will be obtained by the end of the lease term, assets are depreciated over the shorter of the lease term and their useful lives.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the profit or loss.

Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation.

Investment properties are measured initially at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the profit or loss in the period in which the property is derecognised.

Leasehold land and building

When the Group makes payments for a property interest which includes both leasehold land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire property is accounted as an operating lease. Specifically, the entire considerations (including any lump sum upfront payments) are allocated between the leasehold land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element at initial recognition.

When the lease payments cannot be allocated reliably between the leasehold land and building elements, the entire property lease is generally classified as if the leasehold land is under finance lease.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2017

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into one of the three categories, including loans and receivables, financial assets at fair value through profit or loss ("FVTPL") and available-for-sale financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables including trade and other receivables, amounts due from associates, pledged deposits and bank balances are measured at amortised cost using the effective interest method, less any impairment losses (see accounting policy on impairment loss on financial assets below).

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2017

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets (continued)

Financial assets at FVTPL

Financial assets at FVTPL comprise investments held-for-trading and derivative financial instruments.

A financial asset is classified as held-for-trading if:

- it has been acquired principally for the purpose of selling in the near future; or
- it is a part of a portfolio of financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking.

Financial assets at FVTPL are stated at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets and is included in the “other gains and losses” line item in the consolidated statement of profit or loss.

Available-for-sale (“AFS”) financial assets

AFS financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at FVTPL.

Equity securities held by the Group that are classified as AFS financial assets are measured at fair value at the end of each reporting period except for unquoted equity investments whose fair value cannot be reliably measured. Dividends on AFS equity investment are recognised in profit or loss when the Group’s right to receive the dividends is established. Other changes in the carrying amount of AFS financial assets are recognised in other comprehensive income and accumulated under the heading of “Investments reserve”. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the “Investments reserve” is reclassified to profit or loss (see the accounting policy in respect of impairment loss on financial assets below).

Dividends on AFS equity instruments are recognised in profit or loss when the Group’s right to receive the dividends is established.

AFS equity investments and club debentures that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, they are measured at cost less any identified impairment losses at the end of the reporting period.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2017

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets

Financial assets, other than those at FVTPL are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For AFS equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For financial assets carried at amortised cost, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- disappearance of an active market for the financial asset because of financial difficulties.

For certain categories of financial asset, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2017

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (continued)

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period in which the impairment takes place.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Impairment losses on AFS equity investments will not be reversed through profit or loss. Any increase in fair value subsequent to impairment loss is recognised directly in other comprehensive income and accumulated in investments reserve. For AFS debt investments, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2017

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments (continued)

Financial liabilities and equity instruments (continued)

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Financial liabilities at amortised cost

Financial liabilities (including trade and other payables, bonds and bank borrowings) are subsequently measured at amortised cost using the effective interest method.

Derivative financial instruments

Derivative financial instruments are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2017

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment losses on assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any.

When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset other than financial assets is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro-rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost of inventories are determined on a weighted average cost method. Net realisable value represents the estimated selling price for inventories less all estimated costs necessary to make the sale.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2017

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity ("foreign currencies") are recognised at the rates of exchange prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve.

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

In addition, in relation to a partial disposal of a subsidiary that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (i.e. partial disposals of associates or joint arrangements that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange differences is reclassified to profit or loss.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2017

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Share-based payment arrangement

Equity-settled share-based payment transactions

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share options reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates during the vesting period, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share options reserve.

When share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained profits.

Retirement benefit costs

Payments to defined contribution retirement benefit plans and the Mandatory Provident Fund Schemes are recognised as an expense when employees have rendered service entitling them to the contributions.

Defined benefit plans

The Group's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any application minimum funding requirements.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2017

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Retirement benefit costs (continued)

Defined benefit plans (continued)

Remeasurements of the net defined benefit liability, actuarial gain or loss are recognised immediately in other comprehensive income. The Group determines the interest expense on the net defined benefit liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period, taking into account any changes in the net defined benefit liability during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The Group recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from “profit before taxation” as reported in the consolidated statement of profit or loss because it excludes items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group’s liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on the temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, associates and joint ventures, except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2017

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Taxation (continued)

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax liabilities or deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale. If the presumption is rebutted, deferred tax liabilities and deferred tax assets for such investment properties are measured in accordance with the above general principles set out in HKAS 12 (i.e. based on the expected manner as to how the properties will be recovered).

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2017

4. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see below), that the directors of the Company have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the consolidated financial statements.

Deferred taxation for investment properties

For the purposes of measuring deferred tax liabilities or assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted.

The directors of the Company have reviewed the Group's investment properties located in Japan and concluded that these properties are held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale except for the investment properties which the land under freehold. Such properties are presumed to be recovered entirely through sale.

The directors of the Company have also reviewed the Group's investment properties located in Hong Kong and Singapore and concluded that the carrying amounts of these properties are to be recovered entirely through sale.

Accordingly, deferred taxation for these investment properties is measured based on the expected manner as to how the properties will be recovered.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2017

4. CRITICAL ACCOUNTING JUDGEMENT AND KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

Key sources of estimation uncertainty

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

Net realisable value of inventories

The cost of inventories is written down to net realisable value (“NRV”) when the cost of inventories is not recoverable. The cost of inventories may not be recoverable if those inventories are damaged, if they have become wholly or partially obsolete, or if their selling prices have declined. When the net realisable value of an item of inventory is less than the carrying amount, the excess is written off immediately in the consolidated statement of profit or loss. The management’s review and estimation of the NRV is primarily based on the ageing, conditions and marketability of the inventories. The Group carried out the inventory review at the end of the reporting period and made the necessary allowance on obsolete and slow moving items so as to write off or write down inventories to their NRVs. The carrying amount of inventories is HK\$547,985,000 (2016: HK\$51,961,000), net of allowance on obsolete and slow moving inventories of HK\$4,340,000 (2016: HK\$5,387,000) as at 31 December 2017.

Fair value measurement of investment properties

As described in notes 3 and 15, investment properties are stated at fair value based on the valuation performed by independent professional valuers. The valuers have determined the fair values using a method of valuation which involves the making of certain assumptions and the use of estimates. In relying on the valuation reports of the professional valuers, the directors of the Company have exercised its judgment and is satisfied that the method of valuation is reflective of the current market conditions. The carrying amount of the investments properties at 31 December 2017 is HK\$4,081,883,000 (2016: HK\$3,723,972,000).

5. SEGMENT INFORMATION

Information reported to the executive directors, being the chief operating decision makers (“CODM”), for the purpose of resource allocation and assessment of segment performance focuses on the distribution of mobile and IT products (Hong Kong and Thailand), property related (property investment and hotel operations) and securities investment. After the completion of the acquisition of additional interest in SiS Distribution (Thailand) Public Company Limited (“SiS Thai”) in December 2017, SiS Thai became a new reportable segment under Distribution of mobile and IT products. Segment liabilities have not been presented as these are not reportable to the CODM.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2017

5. SEGMENT INFORMATION (CONTINUED)

Segment revenue and results

The following is an analysis of the Group's revenue and results by reportable and operating segments for the year:

	For the year ended 31 December 2017			
	Distribution of mobile and IT products HK\$'000	Property investment HK\$'000	Securities investment HK\$'000	Consolidated HK\$'000
Segment revenue				
External sales	<u>766,323</u>	<u>244,445</u>	<u>–</u>	<u>1,010,768</u>
Segment (loss) profit	<u>(40,582)</u>	<u>374,273</u>	<u>23,218</u>	<u>356,909</u>
Loss on disposal of subsidiaries				(97)
Gain on re-measurement of previously held interest in associate				118,832
Impairment loss on interest in associate				(219)
Share of results of associates				34,623
Finance costs				(34,119)
Other unallocated income				14,186
Unallocated corporate expenses				<u>(42,225)</u>
Profit before taxation				<u>447,890</u>
	For the year ended 31 December 2016			
	Distribution of mobile and IT products HK\$'000	Property investment HK\$'000	Securities investment HK\$'000	Consolidated HK\$'000
Segment revenue				
External sales	<u>911,254</u>	<u>217,163</u>	<u>–</u>	<u>1,128,417</u>
Segment (loss) profit	<u>(10,519)</u>	<u>353,151</u>	<u>3,935</u>	<u>346,567</u>
Loss on disposal of subsidiaries				(24)
Gain on liquidation of a joint venture				10,987
Loss from changes in fair value of derivative financial instruments				(40,116)
Share of results of associates				28,214
Finance costs				(28,645)
Other unallocated income				3,454
Unallocated corporate expenses				<u>(42,785)</u>
Profit before taxation				<u>277,652</u>

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2017

5. SEGMENT INFORMATION (CONTINUED)

Segment revenue and results (continued)

Segment profit represents the profit earned by each segment without allocation of central administration costs and corporate expenses, loss on disposal of subsidiaries, impairment loss on interest in associate, gain on re-measurement of previously held interest in associate, share of results of associates, gain on liquidation of a joint venture, loss from changes in fair value of derivative financial instruments, finance costs and other unallocated income.

As the acquisition of additional interests in SiS Thai was completed near the end of the year 2017, the segment revenue and results of distribution of mobile and IT products related to the Group's operations in Hong Kong.

Segment assets

The following is an analysis of the Group's assets by reportable segment:

	At 31 December 2017				
	Distribution of mobile and IT products		Property investment	Securities investment	Consolidated
	Hong Kong	Thailand			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	153,950	1,441,716	4,419,900	241,694	6,257,260
Interests in associates and joint ventures					92,966
Unallocated corporate assets					1,156,900
Consolidated total assets					7,507,126

	At 31 December 2016			
	Distribution of mobile and IT products	Property investment	Securities investment	Consolidated
	Hong Kong			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Segment assets	163,272	4,075,834	171,937	4,411,043
Interests in associates and joint ventures				267,185
Unallocated corporate assets				998,217
Consolidated total assets				5,676,445

For the purposes of monitoring segment performances and allocating resources between segments, all assets are allocated to operating segments other than interests in associates and joint ventures and unallocated corporate assets.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2017

5. SEGMENT INFORMATION (CONTINUED)

Other segment information

Segment results and segment assets presented above includes the following:

	For the year ended 31 December 2017				
	Distribution of mobile and IT products	Property investment	Securities investment	Unallocated	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Capital additions	3,481	35,314	–	–	38,795
Capital additions through acquisition of subsidiaries in Thailand	28,130	–	–	–	28,130
Reversal of allowance on obsolete and slow moving inventories	(1,047)	–	–	–	(1,047)
Reversal of allowance on doubtful debts	(568)	–	–	–	(568)
Gain on disposal of available-for-sale investments	–	–	(26,609)	–	(26,609)
Impairment loss on available-for-sale investments	–	–	7,318	–	7,318
Depreciation	1,705	6,139	–	284	8,128
Gain from changes in fair value of investment properties	–	(246,285)	–	–	(246,285)

	For the year ended 31 December 2016				
	Distribution of mobile and IT products	Property investment	Securities investment	Unallocated	Consolidated
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Capital additions	3,873	876,542	–	7	880,422
Allowance on obsolete and slow moving inventories	3,008	–	–	–	3,008
Allowance for doubtful debts	1,360	–	–	–	1,360
Gain on disposal of available-for-sales investments	–	–	(2,618)	–	(2,618)
Depreciation	1,358	3,454	–	281	5,093
Gain from changes in fair value of investment properties	–	(232,057)	–	–	(232,057)

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2017

5. SEGMENT INFORMATION (CONTINUED)

Geographical information

The Group's revenue from external customers by geographical location of the customers are attributed to the group entities' countries of domicile (i.e. Hong Kong, Japan, Singapore, Thailand and Bangladesh).

Information about the Group's revenue by geographical location of the customers and non-current assets by geographical location of assets are set out below:

	Revenue		Non-current assets	
	2017 HK\$'000	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000
Hong Kong	802,324	944,751	1,747,382	1,573,891
Japan	206,887	181,985	2,610,204	2,429,052
Singapore	1,557	1,451	49,937	43,640
Thailand	–	–	28,130	–
Bangladesh	–	230	–	–
	1,010,768	1,128,417	4,435,653	4,046,583

Non-current assets excluded goodwill, deferred tax assets, deposits paid, financial instruments, interests in associates and joint ventures.

Major customer information

During the years ended 31 December 2016 and 2017, no customer contributed over 10% of the total revenue of the Group.

6. REVENUE

Revenue represents the net amount received and receivable for goods sold and gross rental income received and receivable from properties leased for the year. An analysis of the Group's revenue for the year is as follows:

	2017 HK\$'000	2016 HK\$'000
Distribution of mobile and IT products	766,323	911,254
Leasing of investment properties	215,329	207,529
Hotel operations	29,116	9,634
	1,010,768	1,128,417

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2017

7. OTHER GAINS AND LOSSES

	2017 HK\$'000	2016 HK\$'000
Reversal of allowance (allowance for) doubtful debts	568	(1,360)
Impairment loss on available-for-sale investments	(7,318)	–
Impairment loss on interest in associate	(219)	–
Gain on liquidation of a joint venture	–	10,987
Loss on disposal of subsidiaries	(97)	(24)
Gain (loss) on disposal of property, plant and equipment	376	(8)
Gain on disposal of available-for-sale investments	26,609	2,618
Exchange gain (loss), net	12,394	(723)
Gain from changes in fair value of investments held-for-trading	3,230	560
Loss from changes in fair value of derivative financial instruments	–	(40,116)
Provision for litigation and other related expenses	(30,000)	–
	5,543	(28,066)

8. FINANCE COSTS

	2017 HK\$'000	2016 HK\$'000
Interest on bank borrowings and bonds	33,065	27,393
Interest on finance leases	1,054	1,252
	34,119	28,645

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2017

9. INCOME TAX EXPENSE

	2017 HK\$'000	2016 HK\$'000
Current tax:		
Hong Kong	797	–
Overseas:		
Corporate tax	1,571	1,241
Withholding tax on declared dividend income	2,570	3,508
	4,938	4,749
(Over) underprovision in prior years		
Hong Kong	–	(43)
Overseas	(570)	60
	4,368	4,766
Deferred taxation (<i>note 31</i>)	73,378	20,153
	77,746	24,919

Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

Overseas taxation is calculated at the rates prevailing in the respective jurisdictions.

Corporate Tax in Japan is calculated at 23.4% (2016: 23.9%) on the estimated assessable profit for the year. Pursuant to relevant laws and regulations in Japan, withholding tax is imposed at 20.42% and 5% on dividends declared to local investors and foreign investors, respectively, in respect of profit earned by Japanese subsidiaries.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2017

9. INCOME TAX EXPENSE (CONTINUED)

The income tax expense for the year can be reconciled to the profit before taxation per the consolidated statement of profit or loss as follows:

	2017 HK\$'000	2016 HK\$'000
Profit before taxation	447,890	277,652
Tax at the domestic income tax rate of 16.5% (<i>note 1</i>)	73,902	45,813
Tax effect of share of results of associates	(5,713)	(4,655)
Tax effect of expenses not deductible for tax purposes	13,031	13,137
Tax effect of income not taxable for tax purposes	(59,192)	(24,817)
Tax effect of tax benefit of subsidiaries (<i>note 2</i>)	(13,133)	(17,448)
Tax effect of tax losses/deductible temporary differences not recognised	3,012	4,419
(Over) underprovision in prior years	(570)	17
Utilisation of tax losses/deductible temporary differences previously not recognised	(821)	(375)
Effect of different tax rates of subsidiaries	453	2,378
Deferred tax on undistributed earnings of subsidiaries and an associate	7,689	3,235
Withholding tax on declared dividend income	2,570	3,508
Additional deferred taxation liabilities on revaluation of properties	54,619	–
Others	1,899	(293)
Income tax expense	77,746	24,919

Notes:

- Hong Kong Profits Tax rate is used as the domestic tax rate as Hong Kong is the place where the operations of the Group are substantially based.
- Certain of the Group's subsidiaries were incorporated as tokutei mokuteki kaisha ("TMK"), a special purpose entity in Japan for real estate transactions. In accordance with the Act on Special Measures Concerning Taxation, a TMK is permitted to deduct from its taxable income the amount of dividends it declared provided that a TMK is distributing at least 90 per cent of its profits in each financial year.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2017

10. PROFIT FOR THE YEAR

	2017 HK\$'000	2016 HK\$'000
Profit for the year has been arrived at after charging:		
Auditor's remuneration	5,862	4,326
Cost of inventories recognised as an expense (including reversal of allowance on obsolete and slow moving inventories of HK\$1,047,000 (2016: allowance on obsolete and slow moving inventories of HK\$3,008,000))	722,068	871,198
Depreciation of property, plant and equipment	8,128	5,093
Staff costs (<i>note</i>)	62,795	61,238
Share of tax of associates (included in share of results of associates)	10,833	8,763
Operating lease rentals in respect of rented premises	4,996	6,597
and after crediting:		
Gross rental income from investment properties	215,329	207,529
Less: direct operating expenses	(76,868)	(71,782)
Net rental income	138,461	135,747
Interest on bank deposits	3,237	1,920
Dividend income from investments held-for-trading	336	645
Dividend income from available-for-sale investments	361	112

Note: Staff costs include emoluments to directors as set out in note 11. Staff costs include retirement benefit schemes contributions for directors and other staff amounting to HK\$1,765,000 (2016: HK\$1,713,000).

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2017

11. DIRECTORS' EMOLUMENTS

Emoluments paid or payable to each of the directors and chief executive officer of the Company during the year are as follows:

	Fees HK\$'000	Salaries and other benefits HK\$'000	Performance bonus HK\$'000	Contributions to retirement benefit scheme HK\$'000	Equity- settled share-based payment HK\$'000	2017 Total HK\$'000
Executive directors:						
Mr. Lim Kia Hong <i>(Chief executive officer)</i>	246	4,520	–	49	178	4,993
Mr. Lim Kiah Meng	246	5,308	100	69	178	5,901
Mr. Lim Hwee Hai	246	3,971	–	39	178	4,434
Madam Lim Hwee Noi	126	2,248	–	37	98	2,509
	<u>864</u>	<u>16,047</u>	<u>100</u>	<u>194</u>	<u>632</u>	<u>17,837</u>
Independent non-executive directors:						
Mr. Lee Hiok Chuan	280	–	–	–	14	294
Ms. Ong Wui Leng	280	–	–	–	14	294
Mr. Ma Shiu Sun Michael	280	–	–	–	17	297
	<u>840</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>45</u>	<u>885</u>
	<u>1,704</u>	<u>16,047</u>	<u>100</u>	<u>194</u>	<u>677</u>	<u>18,722</u>

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2017

11. DIRECTORS' EMOLUMENTS (CONTINUED)

	Fees HK\$'000	Salaries and other benefits HK\$'000	Performance bonus HK\$'000	Contributions to retirement benefit scheme HK\$'000	Equity- settled share-based payment HK\$'000	2016 Total HK\$'000
Executive directors:						
Mr. Lim Kia Hong (Chief executive officer)	246	4,347	-	68	498	5,159
Mr. Lim Kiah Meng	246	5,106	100	69	498	6,019
Mr. Lim Hwee Hai	246	3,819	-	39	498	4,602
Madam Lim Hwee Noi	126	2,162	-	37	293	2,618
	<u>864</u>	<u>15,434</u>	<u>100</u>	<u>213</u>	<u>1,787</u>	<u>18,398</u>
Independent non-executive directors:						
Mr. Lee Hiok Chuan	280	-	-	-	71	351
Ms. Ong Wui Leng	280	-	-	-	71	351
Mr. Ma Shiu Sun Michael	280	-	-	-	88	368
	<u>840</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>230</u>	<u>1,070</u>
	<u>1,704</u>	<u>15,434</u>	<u>100</u>	<u>213</u>	<u>2,017</u>	<u>19,468</u>

Mr. Lim Kiah Ming is also the Chief Executive of the Company and his emoluments disclosed above include those for services rendered by him as the Chief Executive for both years.

The performance bonus is determined by reference to the performance and resources of the group companies and the performance of the individual directors for both years.

The executive directors and independent non-executive directors' emoluments shown above were for the services in connection with the management of the affairs of the Company and the Group for both years.

The independent non-executive directors' emoluments shown above were for their services as directors of the Company and the Group for both years.

There was no arrangement under which directors waived or agreed to waive any remuneration for both years.

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FOR THE YEAR ENDED 31 DECEMBER 2017

12. EMPLOYEES' EMOLUMENTS

Of the five individuals with the highest emoluments in the Group, four (2016: four) were directors whose emoluments are disclosed in note 11 above. The emoluments of the remaining one (2016: one) individual are as follows:

	2017 HK\$'000	2016 HK\$'000
Salaries and other benefits	2,395	2,304
Contributions to retirement benefit scheme	18	18
Equity-settled share-based payment	67	175
	2,480	2,497

13. DIVIDENDS

	2017 HK\$'000	2016 HK\$'000
Dividend recognised as distribution during the year:		
Final dividend, paid in respect of the year ended 31 December 2016 of 3.0 HK cents per share (2016: 3.0 HK cents per share in respect of the year ended 31 December 2015)	8,339	8,327

A final dividend of 4.0 HK cents per share amounting to HK\$11,119,000 for the year ended 31 December 2017 have been proposed by the directors of the Company and are subject to approval by the shareholders in the forthcoming annual general meeting.

14. EARNINGS PER SHARE

The calculation of both the basic and diluted earnings per share is based on the Group's profit attributable to owners of the Company of HK\$367,835,000 (2016: HK\$236,209,000) and the weighted average number of ordinary shares calculated below.

	2017	2016
Weighted average number of ordinary shares for the purpose of basic earnings per share	277,873,515	277,516,120
Effect of dilutive potential ordinary share: Share options issued by the Company	52,541	251,615
Weighted average number of ordinary shares for the purpose of diluted earnings per share	277,926,056	277,767,735

The computation of diluted earnings per share for the years ended 31 December 2016 and 2017 did not assume the exercise of certain share options of the Company and share options of SiS Mobile as the exercise prices of those options are higher than the average market prices of the shares of the Company and SiS Mobile for the year.

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15. INVESTMENT PROPERTIES

	2017 HK\$'000	2016 HK\$'000
At 1 January	3,723,972	2,795,026
Exchange realignment	105,440	15,006
Additions	35,273	681,883
Disposal	(29,087)	–
Gain from changes in fair value recognised in profit or loss	246,285	232,057
At 31 December	4,081,883	3,723,972

An analysis of the investment properties, which are stated at fair value, by geographical location and lease term is as follows:

	2017 HK\$'000	2016 HK\$'000
Hong Kong		
long lease	1,547,200	1,352,400
medium-term lease	59,000	79,900
Japan		
freehold	2,217,176	2,059,256
medium-term lease	212,058	192,270
Singapore		
freehold	18,954	16,562
medium-term lease	27,495	23,584
	4,081,883	3,723,972

All of the Group's property interests which are held to earn rentals or for capital appreciation purposes (including those that are held under operating leases), are classified and accounted for as investment properties and are measured using the fair value model.

In determining the fair value of the relevant properties, the Group works closely with the independent qualified external valuers to determine the appropriate valuation technique and inputs to the model for the fair value measurements.

The fair values of the investment properties in Hong Kong, Japan and Singapore, which falls under level 3 of the fair value hierarchy, as at the end of the reporting period, have been arrived at on the basis of valuations carried out on that date by Cushman & Wakefield Limited, CBRE KK and Knight Frank Pte. Ltd. respectively, who are independent qualified professional valuers not connected with the Group. The valuations were arrived at by reference to market evidence of recent transaction prices for similar properties and where appropriate by capitalisation of the net income with due allowance for outgoings and provisions for reversionary income potential. There has been no change from the valuation techniques used in the prior year.

Notes to the Consolidated Financial Statements

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15. INVESTMENT PROPERTIES (CONTINUED)

One of the key inputs used in valuing the investment properties located in Hong Kong and Singapore was the unit sale rate. The unit sale rate of commercial properties located in Hong Kong ranged from HK\$5,100 to HK\$30,700 (2016: HK\$4,800 to HK\$28,000) while the unit sale rate of residential properties and car parks located in Hong Kong were HK\$15,000 and HK\$4,200,000 respectively (2016: HK\$13,000 and HK\$3,933,000 respectively). The unit sale rate of the investment properties located in Singapore ranged from Singapore Dollar ("SGD") 1,000 to SGD1,500 (2016: SGD900 to SGD1,500). The unit sale rate takes into account of market comparables and the location and other individual factors such as size of property etc. The higher the unit sales rate, the higher the fair value of the investment properties, and vice versa.

In estimating the fair value of the investment properties situated in Hong Kong and Singapore, the highest and best use of the properties is their current use.

One of the key inputs used in valuing the investment properties located in Japan was the capitalisation rates, of which the capitalisation rates used for hospitality premises and office premises ranged from 4.3% to 6.1% and 4.7% to 6.2% respectively (2016: 4.7% to 5.8% and 5.1% to 5.3% respectively). An increase in the capitalisation rate would result in a decrease in fair value of the investment properties, and vice versa.

The valuation obtained for an investment property situated in Japan has been adjusted to avoid double-counting of liabilities that are recognised as separate finance lease obligation liabilities. A reconciliation between the valuation amount and the adjusted valuation is provided below.

	2017 HK\$'000	2016 HK\$'000
Valuation of the investment property	308,385	267,852
Recognised finance lease obligation	33,255	35,692
Fair value of the investment property	341,640	303,544

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16. PROPERTY, PLANT AND EQUIPMENT

	Freehold land HK\$'000	Hotel properties HK\$'000	Land and building in Hong Kong under long lease HK\$'000	Leasehold improvements HK\$'000	Furniture, fixtures and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
COST							
At 1 January 2016	-	-	138,888	9,909	5,455	2,680	156,932
Exchange realignment	(6,828)	(7,985)	-	-	(60)	(55)	(14,928)
Additions	89,142	104,239	-	3,208	1,950	-	198,539
Disposals	-	-	-	(1,238)	(1,220)	(183)	(2,641)
At 31 December 2016	82,314	96,254	138,888	11,879	6,125	2,442	337,902
Exchange realignment	3,725	4,355	-	-	94	159	8,333
Additions	-	-	-	1,261	268	1,993	3,522
Acquisition of subsidiaries (note 35)	-	-	-	6,702	21,428	-	28,130
Disposals	-	-	-	(1,568)	(754)	(1,401)	(3,723)
At 31 December 2017	86,039	100,609	138,888	18,274	27,161	3,193	374,164
DEPRECIATION							
At 1 January 2016	-	-	1,762	5,582	3,495	1,583	12,422
Exchange realignment	-	(127)	-	(6)	(21)	(43)	(197)
Provided for the year	-	1,686	430	1,561	1,135	281	5,093
Eliminated on disposals	-	-	-	(987)	(857)	(183)	(2,027)
At 31 December 2016	-	1,559	2,192	6,150	3,752	1,638	15,291
Exchange realignment	-	64	-	22	66	111	263
Provided for the year	-	4,521	430	1,780	1,089	308	8,128
Eliminated on disposals	-	-	-	(1,545)	(754)	(989)	(3,288)
At 31 December 2017	-	6,144	2,622	6,407	4,153	1,068	20,394
CARRYING VALUES							
At 31 December 2017	86,039	94,465	136,266	11,867	23,008	2,125	353,770
At 31 December 2016	82,314	94,695	136,696	5,729	2,373	804	322,611

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16. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

The above items of property, plant and equipment are depreciated on a straight-line basis at the following rates per annum:

Hotel properties	2% – 3%
Leasehold land	Over the term of the lease
Building	2%, or over the term of the lease, whichever is shorter
Leasehold improvements	15% or the term of the lease, whichever is shorter
Furniture, fixtures and equipment	10% – 33%
Motor vehicles	20%

17. GOODWILL

	HK\$'000
<hr/>	
COST AND CARRYING VALUES	
Arising on acquisition of subsidiaries (<i>note 35</i>)	126,406
	<hr/>
At 31 December 2017	126,406
	<hr/>

Goodwill arose from the acquisition of equity interest in a group, which is engaged in distribution of mobile and IT products in Thailand.

For the purposes of impairment testing, goodwill has been allocated to a group of cash-generating units in relation to distribution of mobile and IT products in Thailand, which represent the lowest level at which the goodwill is monitored internally for management purpose.

During the year ended 31 December 2017, management of the Group determines that there is no impairment as the fair value less cost of disposal, based on the market capitalisation approach, is above the carrying amount.

Notes to the Consolidated Financial Statements

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18. INTERESTS IN ASSOCIATES

	2017 HK\$'000	2016 HK\$'000
Cost of investment in associates		
Listed overseas	92,097	163,151
Unlisted overseas	–	219
Share of post-acquisition profits and reserves, net of dividend received	869	103,815
	92,966	267,185
Fair value of listed associates	131,517	412,592

The recoverable amount of the interest in the associate was estimated to be less than its carrying amount as at 31 December 2017. The Company recognised an impairment loss of HK\$219,000 in profit or loss for the year.

Details of the principal associates at the end of the reporting period are as follows:

Name of company	Form of business structure	Country of incorporation/ operation	Class of shares held	Proportion of nominal value of issued capital held indirectly by the Company		Proportion of voting rights held indirectly by the Company		Principal activities
				2017	2016	2017	2016	
SiS Distribution (Thailand) Public Company Limited (listed on the Stock Exchange of Thailand)	Limited company	Thailand	Ordinary	– (Note)	47.3%	–	47.3%	Distribution of mobile and IT products and provision of services
Information Technology Consultants Limited ("ITCL")	Limited company	Bangladesh	Ordinary	37.6%	37.6%	37.6%	37.6%	Provision of financial services and mobile banking solutions

Note: During the year, the Group acquired an additional 16.82% equity interest in the associate through Thai Alliance Co., Ltd., a subsidiary which the Group owns 96.55% interest. Upon completion of the acquisition, the Group effectively holds 63.53% equity interest and obtained control in SiS Distribution (Thailand) Public Company Limited. Accordingly, the investment was reclassified from interest in associate to interest in subsidiary. Details of the transaction are set out in note 35.

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18. INTERESTS IN ASSOCIATES (CONTINUED)

The summarised financial information in respect of the material associate up to the date of control obtained, is set out below:

(i) SiS Distribution (Thailand) Public Company Limited

	2017 HK\$'000	2016 HK\$'000
Current assets	–	973,233
Non-current assets	–	87,434
Current liabilities	–	(680,160)
Non-current liabilities	–	(10,401)
Net assets	–	370,106
Group's share of net assets	–	175,031
Revenue	4,608,446	4,060,842
Profit for the year	69,065	49,478
Other comprehensive expense for the year	(22)	–
Dividend received from the associate during the year	15,237	10,980
Group's share of the total profit for the year	32,661	23,399

(ii) Aggregate information of associate that is not individually material

	2017 HK\$'000	2016 HK\$'000
The Group's share of profit for the year	1,962	4,815

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18. INTERESTS IN ASSOCIATES (CONTINUED)

- (iii) The Group has discontinued recognising its share of losses of certain associates. The amounts of unrecognised share of losses of these associates, extracted from the management accounts of the relevant associates, both for the year and cumulatively, are as follows:

	2017 HK\$'000	2016 HK\$'000
Unrecognised share of loss of associates for the year	(11)	(21)
Accumulated unrecognised share of losses of associates	(779)	(768)

19. INTERESTS IN JOINT VENTURES

	2017 HK\$'000	2016 HK\$'000
Cost of investments	153	153
Share of post-acquisition loss and reserves	(153)	(153)
	–	–

Details of the joint venture at the end of the reporting period are as follows:

Name of company	Form of business	Country of incorporation/operation	Proportion of capital held indirectly by the Company		Principal activities
			2017	2016	
Disteck Service Pte Ltd ("Disteck Service") (formerly known as SiS Inflectionpoint Pte Ltd)	Limited company	Singapore	25%	25%	Distribution of IT products

Disteck Service is jointly controlled by the Group and the other equity-holders by virtue of contractual arrangements amongst equity-holders. All major decisions on the relevant activities of Disteck Service require unanimous consent from all the equity-holders.

The summarised financial information of the joint ventures, that are not individually material.

	2017 HK\$'000	2016 HK\$'000
The Group's share of loss and other comprehensive expense	–	–

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20. AVAILABLE-FOR-SALE INVESTMENTS

	2017 HK\$'000	2016 HK\$'000
Equity securities		
Listed overseas, at fair value	163,032	91,929
Unlisted, at costs less impairment	60,701	65,624
Club debentures, unlisted, at cost	1,300	1,300
	225,033	158,853

The fair values of listed equity securities are determined based on the quoted market bid prices available on the relevant exchanges except for 2016, an equity security listed overseas was measured using inputs other than quoted price that are observable and hence was classified as Level 2 of the fair value hierarchy.

The unlisted equity securities represent investment in entities involve in IT related business and development of hospitality business are held for strategic and capital appreciation purposes. The unlisted equity securities are measured at cost less impairment, if any, because the range of reasonable fair value estimates is so broad that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

21. INVENTORIES

	2017 HK\$'000	2016 HK\$'000
Finished goods	552,325	57,348
Less: allowance on obsolete and slow moving inventories	(4,340)	(5,387)
	547,985	51,961

During the year, a net reversal of allowance on obsolete and slow moving inventories of HK\$1,047,000 (2016: net allowance on obsolete and slow moving inventories of HK\$3,008,000) have been made in respect to an allowance no longer required on the subsequent sales of certain inventories, which indicated the circumstance that previously caused inventories to be written down below cost no longer exists.

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22. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2017 HK\$'000	2016 HK\$'000
Trade receivables	725,922	88,338
Less: allowance for doubtful debts	(233)	(801)
	725,689	87,537
Consumption tax receivable	52	16,563
Value added tax receivable	44,626	–
Rebate and claims receivable	44,906	14,922
Advance to suppliers	14,072	–
Others	25,898	26,391
	855,243	145,413

The Group maintains a defined credit policy. Before accepting any new customers, the Group assesses the potential customer's credit quality and defines credit limits by customers. Limits granted to customers are reviewed periodically. For sales of goods, the Group allows credit period range from 30 to 90 days to its trade customers. No credit period is granted to the customers for renting of properties. Rent is payable on presentation of a demand note. No interest is charged on overdue debts.

The following is an aged analysis of trade receivables presented based on the invoice date at the end of the reporting period.

	2017 HK\$'000	2016 HK\$'000
Within 30 days	430,390	44,548
31 to 90 days	260,913	28,553
91 to 120 days	11,229	3,830
Over 120 days	23,157	10,606
	725,689	87,537

Included in the trade receivable balance are debts with total carrying amount of HK\$117,729,000 (2016: HK\$29,298,000) which are past due at the end of the reporting period for which the Group has not provided for impairment loss as the Group considers that the default risk is low after considering the creditworthiness and past payment history of the debtors and settlement after the end of the reporting period. No collateral is held over these receivables. Trade receivables which are neither overdue nor impaired are of good quality.

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22. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS (CONTINUED)

The aging of these trade receivables at the end of each reporting period which are past due but not impaired, aged from their respective due dates are as follows:

	2017 HK\$'000	2016 HK\$'000
Overdue:		
Within 30 days	95,472	15,292
31 to 90 days	15,331	6,041
91 to 120 days	595	1,451
Over 120 days	6,331	6,514
	<u>117,729</u>	<u>29,298</u>

Movement in the allowance for doubtful debts deducted from the trade receivable are as follows:

	2017 HK\$'000	2016 HK\$'000
Balance at beginning of reporting period	801	–
(Reversal of allowances) allowance for doubted debts recognised	(568)	1,360
Amounts written off as uncollectible	–	(559)
Balance at end of the reporting period	<u>233</u>	<u>801</u>

The allowance for doubtful debts is provided on individually impaired trade debtors which have either been in severe financial difficulties or defaulted payments.

23. AMOUNTS DUE FROM ASSOCIATES

Included in the amounts due from associates is an amount of HK\$8,797,000 (2016: nil) which is unsecured, bear interest at rates ranging from 3.03% to 5.25% per annum and repayable on December 2018. The remaining balances are unsecured, interest free and repayable on demand. The directors consider the amounts will be repaid within twelve months from the reporting period.

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24. INVESTMENTS HELD-FOR-TRADING

	2017 HK\$'000	2016 HK\$'000
Equity securities		
Listed overseas, at fair value	16,661	13,084

The fair values are determined based on the quoted market bid prices available on the relevant exchange.

25. PLEDGED DEPOSITS / BANK BALANCES

Pledged deposits and bank balances comprise of short-term bank deposits which carry interest at market rates ranging from 0.001% to 1.23% (2016: 0.001% to 0.81%) per annum.

Pledged deposits that are denominated in foreign currencies, currencies other than the functional currencies of the relevant group entities, amounted to HK\$353,106,000 (2016: HK\$180,515,000).

26. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS

	2017 HK\$'000	2016 HK\$'000
Trade payables	453,251	47,432
Accrued marketing expenses	74,449	4,484
Rental and other received in advance	34,003	17,896
Accrued staff costs	40,158	16,408
Provision for litigation and other related expense	30,000	–
Other tax payable	11,235	4,592
Interest payable	7,564	5,795
Other payables and accruals	61,221	44,646
	711,881	141,253

The average credit period on purchase of goods is 30 to 60 days. The Group has policies in place to ensure that all payables are paid within the credit time frame.

Trade payables that are denominated in United States Dollar, currency other than the functional currencies of the relevant group entities amounted to HK\$87,520,000 (2016: HK\$30,836,000).

Notes to the Consolidated Financial Statements

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26. TRADE PAYABLES, OTHER PAYABLES AND ACCRUALS (CONTINUED)

The following is an aged analysis of the trade payables, based on the invoice date, at the end of the reporting period.

	2017 HK\$'000	2016 HK\$'000
Within 30 days	323,297	31,280
31 to 90 days	118,267	8,534
91 to 120 days	1,205	470
Over 120 days	10,482	7,148
	453,251	47,432

27. DERIVATIVE FINANCIAL INSTRUMENTS

	2017 HK\$'000	2016 HK\$'000
Foreign currency forward contracts	536	–

The terms of the foreign currency forward contracts are listed out as below:

2017 Buy	Sell	Maturity	Contract rates
USD8,098,000	THB265,574,000	17 January 2018 to 5 June 2018	USD1: THB32.42 to USD1: THB33.95

28. OBLIGATIONS UNDER FINANCE LEASES

	2017 HK\$'000	2016 HK\$'000
Analysed for reporting purposes as:		
Current liabilities	4,173	3,876
Non-current liabilities	29,082	31,816
	33,255	35,692

In 2015, the Group acquired an equipment under finance leases with a lease term of 10 years. Interest rates underlying all obligations under finance leases are fixed at respective contract dates ranging from 2.80% to 3.56%.

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28. OBLIGATIONS UNDER FINANCE LEASES (CONTINUED)

	Minimum lease payments		Present value minimum lease payments	
	2017 HK\$'000	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000
Obligations under finance lease payable:				
Within one year	5,104	4,883	4,173	3,876
Within a period of more than one year but not more than two years	5,104	4,883	4,298	3,992
Within a period of more than two years but not more than five years	15,313	14,650	13,688	12,713
Within a period of more than five years	11,274	15,870	11,096	15,111
	<u>36,795</u>	<u>40,286</u>	<u>33,255</u>	<u>35,692</u>
Less: Future finance charges	(3,540)	(4,594)	N/A	N/A
	<u>33,255</u>	<u>35,692</u>	<u>33,255</u>	<u>35,692</u>
Less: Amount due for settlement within 12 months (shown under current liabilities)			(4,173)	(3,876)
Amount due for settlement after 12 months			<u>29,082</u>	<u>31,816</u>

29. BANK BORROWINGS

	2017 HK\$'000	2016 HK\$'000
Bank Loans	2,307,261	2,041,616
Trust Receipt	325,413	–
	<u>2,632,674</u>	<u>2,041,616</u>
Secured	2,090,271	1,973,116
Unsecured	542,403	68,500
	<u>2,632,674</u>	<u>2,041,616</u>

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29. BANK BORROWINGS (CONTINUED)

The Group's bank borrowings were repayable as follows:

Carrying amount of bank borrowings based on scheduled repayment dates sets out in the loan agreements:

	2017 HK\$'000	2016 HK\$'000
Within one year	1,530,930	933,476
More than one year but not more than two years	21,128	20,213
More than two year but not more than five years	406,657	210,233
More than five years	537,796	726,808
	2,496,511	1,890,730
Carrying amount of bank borrowings that contains a repayment on demand clause (show under current liabilities):		
– repayable more than one year, but not exceeding two years	27,286	13,370
– repayable more than two year, but not exceeding five years	21,106	40,111
– repayable more than five years	87,771	97,405
	136,163	150,886
	2,632,674	2,041,616
Less: Amount due within one year shown under current liabilities	(1,667,093)	(1,084,362)
Amount shown under non-current liabilities	965,581	957,254

The bank loans bear interest at variable market interest rates, which are based on London Interbank Offer Rate ("LIBOR"), Singapore Interbank Offer Rate ("SIBOR") or JPY LIBOR plus a margin, ranging from 0.40% to 1.90% per annum (2016: LIBOR, SIBOR or JPY LIBOR plus 0.40% to 1.90% per annum).

The bank loans that are denominated in Thai Baht bears floating interest rates from 2.27% to 2.30% per annum (2016: Nil).

Trust receipt bears floating interest rates from 2.00% to 2.25% per annum (2016: Nil).

Bank loans that are denominated in Japanese Yen and United State Dollar, amounted to JPY9,658,250,000 (equivalent to HK\$669,317,000) (2016: JPY9,758,250,000 (equivalent to HK\$646,972,000)) and USD18,200,000 (equivalent to HK\$141,960,000) (2016: Nil) respectively. All other bank loans are denominated in functional currency of the respective group entities.

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30. BONDS

Bonds with aggregate principal amount of JPY3,867,728,000 (equivalent to HK\$268,034,000) (2016: JPY4,126,771,000 (equivalent to HK\$273,605,000)) will mature on 30 July 2024. The bonds are all denominated and settled in Japanese Yen, bear interest at rates ranging from JPY LIBOR plus 0.97% to 1.90% (2016: JPY LIBOR plus 1.07% to 1.90%) per annum, payable quarterly and non-recourse in nature.

	2017 HK\$'000	2016 HK\$'000
Carrying amount of bond repayable based on contractual repayment dates:		
Within one year	–	17,396
More than one year but not more than two years	–	–
More than two years but not more than five years	67,621	64,723
More than five years	200,413	191,486
	268,034	273,605

31. DEFERRED TAXATION

The following are the major deferred tax (liabilities) assets recognised and movements thereon during the current and prior years:

	Accelerated tax depreciation HK\$'000	Allowances for doubtful debts/ inventories HK\$'000	Tax losses HK\$'000	Undistributed earnings of subsidiaries and an associate HK\$'000	Revaluation of properties HK\$'000	Total HK\$'000
At 1 January 2016	(9,133)	1,356	9,051	(18,574)	(41,070)	(58,370)
(Charge) credit to profit or loss	(818)	–	732	(3,235)	(16,832)	(20,153)
Exchange realignment	–	–	–	602	78	680
At 31 December 2016	(9,951)	1,356	9,783	(21,207)	(57,824)	(77,843)
(Charge) credit to profit or loss	(4,718)	–	1,690	(7,689)	(62,661)	(73,378)
Acquisition of subsidiaries	–	55,949	–	–	–	55,949
Exchange realignment	–	–	–	(1,628)	(2,610)	(4,238)
At 31 December 2017	(14,669)	57,305	11,473	(30,524)	(123,095)	(99,510)

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31. DEFERRED TAXATION (CONTINUED)

Additional deferred tax liabilities on revaluation of properties in Japan of HK\$54,619,000 has been provided based on corporate tax rate of 23.4% for the year ended 31 December 2017.

The following is the analysis of the deferred tax balances for financial reporting purposes:

	2017 HK\$'000	2016 HK\$'000
Deferred tax assets	68,778	11,139
Deferred tax liabilities	(168,288)	(88,982)
	(99,510)	(77,843)

At the end of the reporting period, the Group has deductible temporary differences of HK\$330,880,000 (2016: HK\$51,759,000) and unutilised tax losses of HK\$232,013,000 (2016: HK\$208,492,000). A deferred tax asset has been recognised in respect of the tax losses of HK\$69,533,000 (2016: HK\$59,290,000) and deductible temporary differences of HK\$287,963,000 (2016: HK\$8,218,000). No deferred tax asset has been recognised in respect of the remaining tax losses of HK\$162,480,000 (2016: HK\$149,202,000) and the deductible temporary differences of HK\$42,917,000 (2016: HK\$43,541,000) due to the unpredictability of future assessable profit streams. All tax losses can be carried forward indefinitely.

32. RENTAL DEPOSITS

The amount recognised represents the rental deposits received under operating leases.

33. SHARE CAPITAL

	Number of ordinary shares of HK\$0.10 each		Nominal value	
	2017	2016	2017 HK\$'000	2016 HK\$'000
Authorised	350,000,000	350,000,000	35,000	35,000
Issued and fully paid				
At beginning of year	277,566,666	277,466,666	27,757	27,747
Exercise of share options	400,000	100,000	40	10
At end of year	277,966,666	277,566,666	27,797	27,757

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34. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged for both years.

The capital structure of the Group consists of bank borrowings and equity, comprising issued share capital, reserves and retained profits.

The management of the Group reviews the capital structure on an annual basis. As part of this review, the management of the Group considers the cost of capital and the risks associated with the capital, and takes appropriate actions to adjust the Group's capital structure. The Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as raising new debt or repayment of existing debt.

35. ACQUISITION OF SUBSIDIARIES

In prior year, the Group held 47.29% interest in SiS Distribution (Thailand) Public Company Limited ("SiS Thai") and accounted the investment in SiS Thai as interest in an associate. On 13 September 2017, the Group sent a letter to the board of directors of SiS Thai pursuant to which the Group will make a pre-conditional voluntary general offer for the remaining shares held by the other shareholders in SiS Thai at a price of Thai Baht ("THB") 7.00 (the "Acquisition"). Details are set out in the Company's circular dated 16 October 2017. Upon completion of the Acquisition on 18 December 2017, the Group acquired 58,893,875 shares, representing approximately 16.82% of the total issued share capital of SiS Thai through Thai Alliance Co., Ltd., which the Group holds 96.55% interest. The purchase consideration of THB412,257,000 (approximately HK\$99,354,000) was paid by cash. After the completion of the Acquisition, the Group holds 63.53% effective interest in SiS Thai and it became a subsidiary of the Group.

The directors of the Company determined the fair value of the Group's existing interest in SiS Thai when control is obtained to be approximately HK\$315,317,000 which represents the 165,616,595 shares of SiS Thai held by the Group stated at the quoted market price per share of THB7.90 on that date. As a result, the gain on re-measurement of previously held interest in SiS Thai was HKD118,832,000.

Assets acquired and liabilities recognised at the date of Acquisition were as follows:

	HK\$'000
Property, plant and equipment	28,130
Interests in associates	4,873
Deferred tax assets	55,949
Deposit paid	3,180
Inventories	500,714
Trade and other receivables	726,803
Amounts due from associates	14,780
Bank balances and cash	49,881
Trade and other payables	(527,766)
Derivative financial instruments	(536)
Tax payable	(833)
Bank borrowings	(395,303)
Retirement benefits obligations	(10,227)
Total identifiable net assets at fair value	449,645

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35. ACQUISITION OF SUBSIDIARIES (CONTINUED)

The fair value of trade and other receivables at the date of Acquisition amounted to HK\$726,803,000. The gross contractual amounts of those trade and other receivables acquired amounted to HK\$757,587,000 at the date of Acquisition. The best estimate at Acquisition date of the contractual cash flows not expected to be collected amounted to HK\$30,784,000.

Goodwill arising from Acquisition

	HK\$'000
Cash consideration	99,354
Add: fair value of previously held interest in associates	315,317
Add: non-controlling interests	161,380
Less: total identifiable net assets at fair value	<u>(449,645)</u>
Goodwill on acquisition	<u>126,406</u>

Goodwill arose from the Acquisition because the cost of the combination included a control premium. In addition, the consideration paid effectively included amounts in relation to the benefit of expected synergies, revenue growth, future market development and the assembled workforce of SiS Thai. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

The above goodwill is not deductible for tax purposes.

Net cash outflow on Acquisition

	HK\$'000
Cash consideration for the Acquisition	99,354
Less: bank balances and cash acquired	<u>(49,881)</u>
Net cash outflow arising on Acquisition	<u>49,473</u>

Had the acquisition been completed on 1 January 2017, total group revenue for the year would have been HK\$5,619,214,000, and profit for the year would have been HK\$406,548,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2017, nor is it intended to be a projection of future results.

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35. ACQUISITION OF SUBSIDIARIES (CONTINUED)

Net cash outflow on Acquisition (continued)

In determining the 'pro-forma' revenue and profit of the Group had SiS Thai been acquired at the beginning of the current year, the directors of the Company have:

- calculated depreciation of plant and equipment acquired on the basis of the fair values arising in the initial accounting for the business combination rather than the carrying amounts recognised in the pre- acquisition financial statements; and
- determined borrowing costs based on the funding levels, credit ratings and debt/equity position of the Group after the business combination.

36. CONTINGENT LIABILITIES

During the year, an originating notice of application (the "Originating Notice") filed with the Competition Tribunal of the Hong Kong Special Administrative Region (the "Competition Tribunal") was served on SiS International Limited, a wholly-owned subsidiary of the Group ("SiS International"), by the legal adviser of the applicant, the Competition Commission (the "Applicant"). According to the Originating Notice, the Applicant alleged that, among other things, SiS International, along with other respondents under the Originating Notice (the "Respondents"), has contravened section 6(1) of the Competition Ordinance (Cap. 619, the laws of Hong Kong) (the "First Conduct Rule") and the Applicant seeks orders from the Competition Tribunal, amongst other reliefs, for pecuniary penalty to be imposed on the Respondents and declaration that each Respondent has contravened the First Conduct Rule.

The Group is working with the legal advisor to take appropriate course of action in respect of the abovementioned application. The substantive hearing of the proceeding will be heard before the Competition Tribunal in the year 2018. As the proceeding is still in a preliminary stage, the ultimate outcome and liability of the claim cannot be ascertained at the end of the reporting period. The Group has made provision for the litigation and related expenses to the consolidated financial statements and the directors of the Company are of the opinion that further financial effects, if any, are not likely to be significant to the Group.

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37. FINANCIAL INSTRUMENTS

a. Categories of financial instruments

	2017 HK\$'000	2016 HK\$'000
<i>Financial assets</i>		
Available-for-sale investments	225,033	158,853
Investments held-for-trading	16,661	13,084
Loans and receivables (including cash and cash equivalents)	1,905,702	1,094,262
	2,147,396	1,266,199
<i>Financial liabilities</i>		
Derivative financial instruments	536	–
Financial liabilities stated at amortised cost	3,367,230	2,421,407
	3,367,766	2,421,407

b. Financial risk management objectives

The Group's financial instruments include available-for-sale investments, bank balances, investments held-for-trading, trade and other receivables, pledged deposits, trade and other payables, amounts due from associates, derivative financial instruments, bonds and bank borrowings. Details of the financial instruments are disclosed in the respective notes.

The management monitors and manages the financial risk of the Group through internal risk assessment. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

The Group's activities expose it primarily to the risks of changes in foreign currency rates and equity prices.

(i) *Currency risk*

Certain purchase of goods of the Group are denominated in United States Dollar. Certain bank balances are denominated in United States Dollar, Australian Dollar, Singapore Dollar, Malaysian Riggitt, Japanese Yen and Renminbi, the currencies other than the functional currencies of the relevant group entities.

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37. FINANCIAL INSTRUMENTS (CONTINUED)

b. Financial risk management objectives (continued)

Market risk (continued)

(i) *Currency risk (continued)*

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities at the end of the reporting period are as follows:

	Assets		Liabilities	
	2017 HK\$'000	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000
United States Dollar	682,385	451,719	232,369	30,836
Australian Dollar	16,650	13,164	–	–
Singapore Dollar	64,773	60,634	9,225	8,626
Malaysian Riggitt	–	–	1,002	898
Japanese Yen	8,143	9,135	669,317	646,972
Renminbi	3,445	3,183	–	–
Inter-company balances: Japanese Yen	756,329	712,815	–	–

The Group currently does not have comprehensive hedging policy. However, the management monitors the currency fluctuation exposure and will consider hedging significant currency risk exposure should need arise.

Sensitivity analysis

The following analysis indicates the change in the Group's post-tax profit in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the end of the reporting period.

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the end of the reporting period and had been applied to each of the group entities' exposure to currency risk at that date, and all other variables are held constant. The sensitivity analysis also includes inter-company balances where the denomination of loans are in a currency other than the functional currency of the lenders.

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37. FINANCIAL INSTRUMENTS (CONTINUED)

b. Financial risk management objectives (continued)

Market risk (continued)

(i) Currency risk (continued)

Sensitivity analysis (continued)

	2017		2016	
	Increase (decrease) in foreign exchange rates %	Increase (decrease) in post-tax profit HK\$'000	Increase (decrease) in foreign exchange rates %	Increase (decrease) in post-tax profit HK\$'000
Non-derivative financial instruments				
United States Dollar	1.5 (1.5)	5,600 (5,600)	1.5 (1.5)	5,271 (5,271)
Australian Dollar	10.0 (10.0)	1,390 (1,390)	10.0 (10.0)	1,099 (1,099)
Singapore Dollar	5.0 (5.0)	2,319 (2,319)	5.0 (5.0)	2,171 (2,171)
Malaysian Rigit	5.0 (5.0)	(42) 42	5.0 (5.0)	(37) 37
Japanese Yen	10.0 (10.0)	7,946 (7,946)	10.0 (10.0)	6,261 (6,261)
Renminbi	10.0 (10.0)	288 (288)	5.0 (5.0)	133 (133)
Derivative financial instruments				
United States Dollar	1.5 (1.5)	8 (8)	- -	- -

In the management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the reporting period exposure does not reflect the exposure during the year.

(ii) Price risk

The Group is exposed to equity price risk through its investment in equity securities. The management closely keeps watch of the price changes and takes appropriate action when necessary.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2017

37. FINANCIAL INSTRUMENTS (CONTINUED)

b. Financial risk management objectives (continued)

Market risk (continued)

(ii) Price risk (continued)

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to listed equity securities at the end of the reporting period.

If the price of the respective listed equity securities classified as held-for-trading investments had been 10% (2016: 10%) higher/lower and all other variables were held constant, the Group's profit for the year would increase/decrease by HK\$1,666,000 (2016: HK\$1,308,000) as a result of the changes in fair value of held-for-trading investments.

If the price of the respective listed equity securities classified as available-for-sale investments had been 10% (2016: 10%) higher/lower, the Group's investments reserve would increase/decrease by HK\$16,303,000 (2016: HK\$9,193,000). However, any significant or prolonged decrease in the fair value of available-for-sale investments below the Group's cost requires recognising impairment loss in profit or loss. As such, the Group's post-tax profit for the year would decrease by the amount of impairment loss recognised.

(iii) Interest rate risk

The balances comprising pledged deposits, bank balances, bonds and bank loans carry interests at floating rate, thus exposing the Group to cash flow interest rate risk. The Group currently does not have any policy to hedge against interest rate risk and will consider hedging exposure such should the needs arise.

Sensitivity analysis

If interest rates had been 50 basis points higher/lower and all other variables were held constant, the Group's post-tax profit for the year ended 31 December 2017 would decrease/increase by HK\$5,774,000 (2016: HK\$5,276,000). The analysis is prepared assuming the amounts of pledged deposits, bank balances, bank loans and bonds outstanding at the end of the reporting period were outstanding for the whole year.

A 50 basis points increase or decrease was used when reporting interest rate risk internally to key management personnel and represented management's assessment of the reasonably possible change in interest rates.

In the management's opinion, the sensitivity analysis is unrepresentative of the inherent interest rates risk as the year end exposure does not reflect the exposure during the year.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2017

37. FINANCIAL INSTRUMENTS (CONTINUED)

b. Financial risk management objectives (continued)

Credit risk

The Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has delegated certain staff for credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the management of the Group consider that the Group's credit risk is significantly reduced.

The Group has no significant concentration of credit risk over its trade debtors, with exposure spread over a number of counterparties and customers, the Group's concentration of credit risk by geographical location of customers are mainly in Hong Kong and Thailand which accounted for majority of the trade receivables at 31 December 2017.

The Group has concentration of credit risk on loans and receivable of which 58% (2016: 88%) are liquid funds deposited with several banks. The credit risk on liquid funds is limited because the counterparties are banks with high credit-standings.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2017

37. FINANCIAL INSTRUMENTS (CONTINUED)

b. Financial risk management objectives (continued)

Liquidity risk

In the management of liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows.

The following table details the Group's remaining contractual maturity for its financial liabilities. For non-derivative financial liabilities, the table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group is required to pay. The table includes both interest and principal cash flow.

	Weighted average interest rate %	On demand or within 3 months HK\$'000	3-12 months HK\$'000	1-2 years HK\$'000	2-5 years HK\$'000	Over 5 years HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount at 31 December HK\$'000
2017								
Non-derivative financial liabilities								
Trade and other payables	N/A	466,522	-	-	-	-	466,522	466,522
Bank borrowings	1.64	1,654,976	23,662	32,366	433,969	543,789	2,688,762	2,632,674
Bonds	1.26	927	2,781	3,709	78,913	202,524	288,854	268,034
		<u>2,122,425</u>	<u>26,443</u>	<u>36,075</u>	<u>512,882</u>	<u>746,313</u>	<u>3,444,138</u>	<u>3,367,230</u>
Sub-total								
Obligation under finance leases	2.97	1,276	3,828	5,104	15,313	11,274	36,795	33,255
Rental deposits	N/A	7,406	10,209	23,470	21,197	70,081	132,363	132,363
		<u>2,131,107</u>	<u>40,480</u>	<u>64,649</u>	<u>549,392</u>	<u>827,668</u>	<u>3,613,296</u>	<u>3,532,848</u>
Derivative financial instruments								
Foreign currency forward contracts		278	258	-	-	-	536	536

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2017

37. FINANCIAL INSTRUMENTS (CONTINUED)

b. Financial risk management objectives (continued)

Liquidity risk (continued)

	Weighted average interest rate %	On demand or within 3 months HK\$'000	3-12 months HK\$'000	1-2 years HK\$'000	2-5 years HK\$'000	Over 5 years HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amount at 31 December HK\$'000
2016								
Non-derivative financial liabilities								
Trade and other payables	N/A	106,186	-	-	-	-	106,186	106,186
Bank borrowings	1.29	1,061,588	33,844	31,258	241,390	738,226	2,106,306	2,041,616
Bonds	1.27	17,510	2,185	3,406	76,312	196,114	295,527	273,605
Sub-total		1,185,284	36,029	34,664	317,702	934,340	2,508,019	2,421,407
Obligation under finance leases	2.97	1,221	3,662	4,883	14,650	15,870	40,286	35,692
Rental deposits	N/A	12,749	5,251	32,530	6,113	71,780	128,423	128,423
		1,199,254	44,942	72,077	338,465	1,021,990	2,676,728	2,585,522

Bank loans with a repayment on demand clause are included in the “on demand or less than 1 year” time band in the above maturity analysis. As at 31 December 2017, the aggregate amounts of these bank loans amounted to HK\$150,148,000 (2016: HK\$164,257,000). The directors of the Company believe that these loan facilities will continue to be made available to the Group and will not be withdrawn by the bank within the next twelve months from the end of the reporting period.

For the purpose of managing liquidity risk, management reviews the expected cash flow information of the Group's borrowings with a repayment on demand clause based on the scheduled repayment dates set out in the agreement as set out in the table below:

	On demand or less than 1 year HK\$'000	1-2 years HK\$'000	2-5 years HK\$'000	Over 5 years HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amounts HK\$'000
2017						
Bank borrowings with a repayment on demand clause	13,986	30,183	28,372	89,827	162,368	150,148
2016						
Bank borrowings with a repayment on demand clause	13,370	15,940	47,001	99,428	175,739	164,257

The amounts included above for variable interest rate instruments for non-derivative financial liabilities is subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

Notes to the Consolidated Financial Statements

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37. FINANCIAL INSTRUMENTS (CONTINUED)

c. Fair value

(i) *Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis*

Some of the financial assets are measured at fair value at the end of each reporting period. The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Fair value measurements recognised in the consolidated statement of financial position

At 31 December 2017

	Fair value hierarchy		
	Level 1 HK\$'000	Level 2 HK\$'000	Total HK\$'000
Listed securities classified as investments held-for-trading	16,661	–	16,661
Listed securities classified as available-for-sale investments	163,032	–	163,032
Foreign currency forward contract	–	536	536
Total	179,693	536	180,229

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2017

37. FINANCIAL INSTRUMENTS (CONTINUED)

c. Fair value (continued)

(i) Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis (continued)

Fair value measurements recognised in the consolidated statement of financial position (continued)

At 31 December 2016

	Fair value hierarchy		Total HK\$'000
	Level 1 HK\$'000	Level 2 HK\$'000	
Listed securities classified as investments held-for-trading	13,084	–	13,084
Listed securities classified as available-for-sale investments	14,767	77,162*	91,929
Total	27,851	77,162	105,013

The fair value of listed securities is determined with reference to quoted market bid price from relevant stock exchanges.

The fair value of foreign currency forward contracts are measured at the present value of future cash flows estimated using quoted forward exchange rates, which is observable at the end of the reporting period.

Excepted as disclosed below, there were no transfers between levels 1, 2 and 3 during the year.

* The fair value of the securities as at 31 December 2016 was measured using the inputs other than quoted price that are observable and hence was classified as Level 2 of the fair value hierarchy. During the current year, the securities commenced traded on the Nasdaq Stock Market and the 6 months lock-up period from its listing was also expired. Therefore, the fair value of the investment in the securities as at 31 December 2017 was determined based on a published price quotation available in the Nasdaq Stock Market and is classified as Level 1 of the fair value hierarchy.

(ii) Fair value of the Group's financial assets and financial liabilities that are not measured at fair value on a recurring basis

The carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate to their fair values which are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2017

38. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flow were, or future cashflows will be classified in the Group's consolidated statement of cash flows from financing activities.

	Bank borrowings HK\$'000 (note 29)	Bonds HK\$'000 (note 30)	Dividend payable HK\$'000 (note 13)	Obligations under finance leases HK\$'000 (note 28)	Total HK\$'000
At 1 January 2017	2,041,616	273,605	–	35,692	2,350,913
Dividend declared	–	–	8,339	–	8,339
Dividend accrued to non-controlling interests	–	–	1,723	–	1,723
Acquisition of subsidiaries	395,303	–	–	–	395,303
Interest accrued	29,267	3,798	–	1,054	34,119
Effect of foreign exchange rate changes	78,759	12,407	–	1,620	92,786
Financing inflows(outflows)	87,729	(21,776)	(10,062)	(5,111)	50,780
At 31 December 2017	2,632,674	268,034	–	33,255	2,933,963

39. OPERATING LEASES

The Group as lessee

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating lease which fall due as follows:

	2017 HK\$'000	2016 HK\$'000
Within one year	13,918	4,550
In the second to fifth year inclusive	17,646	5,338
Over five years	31,193	30,521
	62,757	40,409

The Group has entered into agreements with unrelated third parties for leases of their properties and land period of 1 to 52 years (2016: 52 years).

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FOR THE YEAR ENDED 31 DECEMBER 2017

39. OPERATING LEASES (CONTINUED)

The Group as lessor

At the end of the reporting period, the Group had contracted with lessees for the following future minimum lease payments:

	2017 HK\$'000	2016 HK\$'000
Within one year	190,088	165,128
In the second to fifth year inclusive	521,336	426,500
More than five years	976,392	1,007,836
	1,687,816	1,599,464

The Group has entered into agreements with the tenants for the leasing activities of the properties in Japan for a period of 5 to 30 years (2016: 5 to 30 years). The remaining leases are negotiated between the Group and the tenants with majority of the terms in 2 to 5 years.

40. SHARE OPTION SCHEME

(a) SiS International Holdings Limited

A new share option scheme was adopted by the Company on 26 May 2017 (the "New Scheme"), while the old share option scheme adopted by the Company on 21 May 2007 had expired on 20 May 2017 (the "Old Scheme"). The Old Scheme and New scheme are collectively referred as SiS International Share Option Scheme (the "SiS International Share Option Scheme"). Pursuant to the SiS International Share Option Scheme, the Company may grant options to qualified persons, including employees and directors of the Company, its subsidiaries and associates, and third parties with a view to maintain business relationship with such persons to subscribe for shares of the Company.

Share options were granted on 20 August 2007 to certain directors of the Company and employees of the Group and directors of an associate at an exercise price of HK\$1.72 per share and at a cash consideration of HK\$10.00 per grantee.

The total number of shares in respect of which options may be granted under the New Scheme is not permitted to exceed 10% of shares of the Company in issue, without prior approval from the Company's shareholders. The number of shares issued and to be issued in respect of which option granted and may be granted to any individual in aggregate within any 12-month period is not permitted to exceed 1% of the Company's issued share capital, without prior approval from the Company's shareholders. HK\$100.00 is payable by each eligible participant to the Company on acceptance of an offer of options.

During the year ended 31 December 2015, share options were granted by the Company on 26 June 2015 to certain directors of the Company and employees of the Group and third parties at an exercise price of HK\$4.47 per share and at a cash consideration of HK\$10.00 per grantee.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2017

40. SHARE OPTION SCHEME (CONTINUED)

(a) SiS International Holdings Limited (continued)

The fair values of the options determined at the date of grant in 2015 using the Binomial model was approximately HK\$3,695,000.

The Group recognised an expense of HK\$509,000 for the year ended 31 December 2017 (2016: HK\$1,320,000) in relation to the share options granted by the Company.

The Binomial model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. Changes in variables and assumptions may result in changes in the fair value of the options.

The following assumptions used to calculate the fair values of share options were:

Grant date share price	HK\$4.39
Exercise price	HK\$4.47
Expected life	10 years
Expected volatility	40.35%
Dividend yield	1.14%
Risk-free interest rate	1.84%
Sub-optimal	1.80 to 1.83

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

Number of share options	Vesting period	Exercise period	Exercise price
750,000	26 June 2015 - 31 December 2015	1 January 2016 - 26 June 2025	HK\$4.47
750,000	26 June 2015 - 31 December 2016	1 January 2017 - 26 June 2025	HK\$4.47
750,000	26 June 2015 - 31 December 2017	1 January 2018 - 26 June 2025	HK\$4.47

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2017

40. SHARE OPTION SCHEME (CONTINUED)

(a) SiS International Holdings Limited (continued)

The movements in the shares options during the two years ended 31 December 2016 and 31 December 2017 are as follows:

Grantee	Outstanding at 1 January 2016	Exercised during the year	Outstanding at 1 January 2017	Exercised during the year	Outstanding at 31 December 2017
Directors	1,090,000	(100,000)	990,000	–	990,000
Employees and others	1,660,000	–	1,660,000	(400,000)	1,260,000
	<u>2,750,000</u>	<u>(100,000)</u>	<u>2,650,000</u>	<u>(400,000)</u>	<u>2,250,000</u>
Exercisable at the end of the year			<u>1,500,000</u>		<u>1,500,000</u>
Weighted average exercise price	<u>3.97</u>	<u>1.72</u>	<u>4.05</u>	<u>1.72</u>	<u>4.47</u>

In respect of the share options exercised during the year, the weighted average share price at the dates of exercise was HK\$4.00 (2016: HK\$4.02).

No options were lapsed during the two years ended 31 December 2016 and 31 December 2017.

No options were granted during the year ended 31 December 2017.

At 31 December 2017, the number of options which remained outstanding under the Scheme was 2,250,000 (2016: 2,650,000) which, if exercised in full, represents 0.8% (2016: 1.0%) of the enlarged capital of the Company.

(b) SiS Mobile Holdings Limited

Pursuant to the SiS Mobile Share Option Scheme adopted by the SiS Mobile on 16 December 2014, SiS Mobile may grant options to qualified persons, including employees and directors of SiS Mobile, its subsidiaries and associates, and third parties with a view to maintain business relationship with such persons to subscribe for shares of SiS Mobile.

During the year ended 31 December 2015, share options were granted by SiS Mobile on 25 June 2015 to directors, certain employees and eligible persons of the SiS Mobile group. The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of shares of SiS Mobile in issue, without prior approval from SiS Mobile shareholders. The number of shares issued and to be issued in respect of which option granted and may be granted to any individual in aggregate within any 12-month period is not permitted to exceed 1% of SiS Mobile issued share capital, without prior approval from SiS Mobile shareholders. HK\$100 is payable by each eligible participant to SiS Mobile on acceptance of an offer of options.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2017

40. SHARE OPTION SCHEME (CONTINUED)

(b) SiS Mobile Holdings Limited (continued)

The following assumptions used to calculate the fair values of share options at the date of options granted were:

Grant date share price	HK\$2.17
Exercise price	HK\$2.36
Expected life	8 years
Expected volatility	54.75%
Dividend yield	0%
Risk-free interest rate	1.64%
Sub-optimal	1.80 to 1.83

The Binomial model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the directors' best estimate. Changes in variables and assumptions may result in changes in the fair value of the options.

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

No. of share options	Vesting period	Exercise period	Exercise price
2,630,000	25.6.2015 – 31.12.2015	1.1.2016 – 30.6.2023	HK\$2.36
2,630,000	25.6.2015 – 31.12.2016	1.1.2017 – 30.6.2023	HK\$2.36
2,630,000	25.6.2015 – 31.12.2017	1.1.2018 – 30.6.2023	HK\$2.36
			Outstanding at 1 January 2016, 31 December 2016 and 2017
Grantee			
Directors			6,390,000
Employees			1,500,000
			<u>7,890,000</u>
			<u>5,260,000</u>
			Exercisable at the end of the year

No options were exercised, lapsed or forfeited during the years ended 31 December 2017 and 2016.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2017

41. RETIREMENT BENEFIT SCHEMES

The Group participates in defined contribution schemes which are registered under Mandatory Provident Fund Scheme ("MPF Scheme") established under the Mandatory Provident Fund Ordinance in December 2000 in Hong Kong. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees.

For members of the MPF Scheme, the Group contributes monthly 5% of the employees' monthly salaries costs or HK\$1,500, whichever the lower, to the scheme.

Employees of the Group's subsidiaries incorporated in Singapore are members of pension schemes operated by the local government. The subsidiaries contributions to the pension schemes ranges from 6.5% to 16% of the employees' monthly salaries.

The Group also operates defined benefit plans ("the Plan") for qualifying employees of its subsidiaries in Thailand based on the requirement of Thai Labour Protection Act B.E. 2541(1998) to provide retirement benefits to employees based on pensionable remuneration and length of service.

The most recent actuarial valuations of the present value of the defined benefit obligation were carried out at 31 December 2017 by independent actuary, NIDA Consulting Center. The present value of the defined benefit obligations and the related current service cost were measured using the Projected Unit Credit Method.

The principal assumptions used for the purposes of the actuarial valuation were as follows:

	2017	2016
Discount rate	2.39%	–
Expected rate of salary increase	6% p.a.	–
Employee turnover rate	0-27%	–

The amount included in the consolidated statement of financial position arising from the Group's obligations in respect of the scheme is as follows:

	2017 HK\$'000	2016 HK\$'000
Present value of defined benefit obligation	10,227	–

Movements of the present value of defined obligation are as follows:

	2017 HK\$'000	2016 HK\$'000
At the beginning of the year	–	–
Acquisition of a subsidiary (<i>note 35</i>)	10,227	–
At the end of the year	10,227	–

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41. RETIREMENT BENEFIT SCHEMES (CONTINUED)

Significant actuarial assumptions for the determination of the defined obligation are discount rate, expected salary increase and mortality. The sensitivity analyses below have been determined based on reasonably possible changes of the respective assumptions occurring at the end of the reporting period, while holding all other assumptions constant.

- If the discount rate is 100 basis points higher or lower, the defined benefit obligation would decrease by HK\$955,000 or increase by HK\$1,119,000 (2016: Nil).
- If the expected salary growth increases or decreases by 1%, the defined benefit obligation would increase by HK\$1,067,000 or decrease by HK\$933,000 (2016: Nil).
- If the life expectancy increases or decreases by 1%, the defined benefit obligation would decrease by HK\$53,000 or increase by HK\$53,000 (2016: Nil).

The sensitivity analysis presented above may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated.

Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation liability recognised in the statement of financial position.

42. PLEDGE OF ASSETS

At the end of the reporting period,

- (a) The Group's investment properties with carrying values of HK\$3,912,647,000 (2016: HK\$3,575,502,000) and property, plant and equipment of carrying values of HK\$180,970,000 (2016: HK\$177,527,000) were under legal charge to secure general banking facilities and the obligation under finance leases available to the Group.
- (b) Bank deposits of HK\$466,337,000 (2016: HK\$331,948,000) were pledged to secure bank loans drawn during the year.
- (c) Certain shares of subsidiaries have been pledged to the banks as at 31 December 2016 and 2017 to secure several banking facilities available to the Group.

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FOR THE YEAR ENDED 31 DECEMBER 2017

43. RELATED PARTY TRANSACTIONS

The Group provides management service to an associate from which service income earned during the year amounted to HK\$2,892,000 (2016: HK\$2,534,000). The amount due from the associate at 31 December 2017 for the services provided is included in trade and other receivables amounted to HK\$532,000 (2016: HK\$446,000).

The Group also provide finance to its associates. Details of the balance at the end of the reporting period is disclosed in note 23.

Apart from the above, remunerations paid and payable to the executive directors of the Company who are considered to be the key management personnels are disclosed in note 11. The remuneration of directors are determined by the Remuneration Committee having regard to the Group's operating result, performance of individuals and market trends.

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44. PRINCIPAL SUBSIDIARIES

General information of subsidiaries

Details of the Company's principal subsidiaries at the end of the reporting period are as follows:

Name of subsidiary	Place of incorporation or registration/ operation	Issued and fully paid ordinary share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company		Principal activities
			2017 %	2016 %	
Direct subsidiaries:					
SiS Distribution Limited	British Virgin Islands	US\$45,001	100	100	Investment holding
SiS Hospitality Holdings Limited	Cayman Islands	HK\$0.1	100	100	Investment holding
SiS Investment Holdings Limited	British Virgin Islands	US\$1	100	100	Investment holding
SiS Mobile Holdings Limited	Cayman Islands	HK\$28,000,000	52.3	52.3	Investment holding
SiS Tech Ventures Corp.	British Virgin Islands	US\$1	100	100	Investment holding
Indirect subsidiaries:					
Computer Zone Limited	Hong Kong	HK\$2	100	100	Property investment
Ever Wealthy Limited	Hong Kong	HK\$1	100	100	Investment holding
Faith Prosper Ltd.	British Virgin Islands	US\$1	100	100	Investment holding
Gain Best Limited	Hong Kong	HK\$1	100	100	Property investment
Gold Kite Limited	Hong Kong	HK\$1	100	100	Investment holding
Qool Bangladesh Limited	Bangladesh	TK1,000,000	99	99	Investment holding
Qool Distribution (Thailand) Co., Ltd.	Thailand	THB200,000	63.5	–	Trading of mobile and IT products
Qool Labs Pte. Ltd.	Singapore	S\$2	100	100	Distribution of IT and communication products
Qool International Limited	Hong Kong	HK\$1	52.3	52.3	Distribution of mobile phone products

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2017

44. PRINCIPAL SUBSIDIARIES (CONTINUED)

General information of subsidiaries (continued)

Name of subsidiary	Place of incorporation or registration/ operation	Issued and fully paid ordinary share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company		Principal activities
			2017 %	2016 %	
QR Capital Limited	Hong Kong	HK\$1	100	100	Property investment
SiS Asia Pte. Ltd.	Singapore	S\$2	100	100	Investment holding, provision of hardware, software and corporate management services
SiS Assets Pte. Ltd	Singapore	S\$1	100	100	Investment holding
SiS Capital Limited	Hong Kong	HK\$1	100	100	Investment holding
SiS Capital (Bangladesh) Pte Ltd.	Singapore	S\$2	100	100	Investment holding
SiS China Limited	Hong Kong	HK\$2	100	100	Property investment
SiS Distribution (Thailand) Public Company Limited	Thailand	THB350,198,665	63.5	–	Distribution of mobile and IT products and provision of services
SiS HK Limited	Hong Kong	HK\$400,000	100	100	Investment holding
SiS International Limited	Hong Kong	HK\$1	100	100	Distribution of IT products and provision of services
SiS Japan Inn TMK	Japan	JPY150,000	100	100	Property investment
SiS Netrepreneur Ventures Corp.	British Virgin Islands	US\$1	100	100	Investment holding
SiS Technologies (Thailand) Pte. Ltd.	Singapore	S\$2	100	100	Investment holding
Synergy Technologies (Asia) Limited	Hong Kong	HK\$5,000,000	52.3	52.3	Distribution of mobile phone and related products

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2017

44. PRINCIPAL SUBSIDIARIES (CONTINUED)

General information of subsidiaries (continued)

Name of subsidiary	Place of incorporation or registration/ operation	Issued and fully paid ordinary share capital/ registered capital	Proportion of nominal value of issued capital/ registered capital held by the Company		Principal activities
			2017 %	2016 %	
Tokutei Mokuteki Kaisha SSG8	Japan	JPY470,000,000	100	100	Property investment
Tokutei Mokuteki Kaisha SSG13	Japan	JPY200,000	100	100	Property investment
SISJP9 Tokutei Mokuteki Kaisha	Japan	JPY198,250,000	100	100	Property investment
SISJP10 Tokutei Mokuteki Kaisha	Japan	JPY262,500,000	100	100	Property investment
Thai Alliance Co., Ltd	Thailand	THB4,800,000	96.6	–	Investment holding
Thai Hero Co., Ltd.	Thailand	THB2,600,000	93.2	–	Investment holding
Thai Joyful Co., Ltd.	Thailand	THB1,500,000	86.7	–	Investment holding
Thai Prosperity Co., Ltd.	Thailand	THB900,000	74.0	–	Investment holding
Thai Success Co., Ltd.	Thailand	THB600,000	49.0	–	Investment holding
Thai Investment Holdings Pte. Ltd	Singapore	S\$1	100	–	Investment holding
Tokutei Mokuteki Kaisha SSG23	Japan	JPY200,000	70	70	Property investment
Tokutei Mokuteki Kaishi SSG28	Japan	JPY200,000	100	100	Property investment

Except for the bonds stated in note 30, none of the subsidiaries had issued any debt securities during the year nor held at the end of the year.

The directors of the Company are of the opinion that a complete list of the particulars of all subsidiaries of the Group will be of excessive length and therefore the above list contains only the particulars of subsidiaries which principally affect the results or assets of the Group.

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2017

44. PRINCIPAL SUBSIDIARIES (CONTINUED)

Details of non-wholly owned subsidiaries that have material non-controlling interests

The table below shows details of non-wholly owned subsidiaries of the Group that has material non-controlling interests as at 31 December 2017 and 2016.

Name of subsidiary	Country of incorporation or registration/operation	Proportion of nominal value of issued capital held by the Company		Profit (loss) allocated to non-controlling interests		Accumulated non-controlling interest	
		2017 %	2016 %	2017 HK\$'000	2016 HK\$'000	2017 HK\$'000	2016 HK\$'000
SiS Mobile Holdings Limited ("SiS Mobile")	Hong Kong	52.3	52.3	630	(3,685)	52,865	51,060
Tokutei Mokuteki Kaisha SSG23	Japan	70.0	70.0	1,996	20,834	65,017	61,944
SiS Distribution (Thailand) Public Company Limited	Thailand	63.5	-	-	-	161,380	-
Individually immaterial subsidiaries with non-controlling interest				(317)	(625)	15,407	9,803
				2,309	16,524	294,669	122,807

Summarised financial information in respect of SiS Mobile as at 31 December 2017 that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

	31.12.2017 HK\$'000	31.12.2016 HK\$'000
Non-current assets	2,929	20
Current assets	133,778	137,721
Current liabilities	(34,009)	(37,667)
Equity attributable to owners of the Company	49,833	49,014
Non-controlling interests	52,865	51,060

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2017

44. PRINCIPAL SUBSIDIARIES (CONTINUED)

Details of non-wholly owned subsidiaries that have material non-controlling interests (continued)

Summarised financial information in respect of SiS Mobile as at 31 December 2017 that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations. (continued)

	Year ended 31.12.2017 HK\$'000	Year ended 31.12.2016 HK\$'000
Revenue	445,911	615,997
Expenses	(444,591)	(623,721)
Profit (loss) for the year	1,320	(7,724)
Profit (loss) for the year attributable to owners of the Company	690	(4,039)
Profit (loss) for the year attributable to non-controlling interests	630	(3,685)
Profit (loss) for the year	1,320	(7,724)
Total comprehensive income (expense) attributable to owners of the Company	819	(4,039)
Total comprehensive income (expense) attributable to non-controlling interests	746	(3,685)
Total comprehensive income (expense) for the year	1,565	(7,724)
Net cash from operating activities	297	74,374
Net cash (used in) from investing activities	(2,836)	3
Net cash used in financing activities	(18)	(30,528)

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2017

44. PRINCIPAL SUBSIDIARIES (CONTINUED)

Details of non-wholly owned subsidiaries that have material non-controlling interests (continued)

Summarised financial information in respect of TMK SSG23 as at 31 December 2017 that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

	31.12.2017 HK\$'000	31.12.2016 HK\$'000
Non-current assets	462,924	450,177
Current assets	62,450	66,633
Current liabilities	(9,650)	(26,370)
Non-current liabilities	(298,987)	(283,947)
Equity attributable to owners of the Company	151,720	144,549
Non-controlling interests	65,017	61,944
	Year ended 31.12.2017 HK\$'000	Year ended 31.12.2016 HK\$'000
Revenue	37,815	32,065
Other income	–	49,949
Expenses	(31,163)	(12,568)
Profit for the year	6,652	69,446
Profit for the year attributable to owners of the Company	4,656	48,612
Profit for the year attributable to non-controlling interests	1,996	20,834
Profit for the year	6,652	69,446
Total comprehensive income for the year attributable to owners of the Company	11,192	57,110
Total comprehensive income for the year attributable to non-controlling interests	4,796	24,476
Total comprehensive income for the year	15,988	81,586

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2017

44. PRINCIPAL SUBSIDIARIES (CONTINUED)

Details of non-wholly owned subsidiaries that have material non-controlling interests (continued)

Summarised financial information in respect of SiS Distribution (Thailand) Public Company Limited as at 31 December 2017 that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

	31.12.2017 HK\$'000
Non-current assets	<u>92,132</u>
Current assets	<u>1,295,920</u>
Current liabilities	<u>(927,223)</u>
Non-current liabilities	<u>(11,184)</u>
Equity attributable to owners of the Company	<u>288,265</u>
Non-controlling interests	<u>161,380</u>

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2017

45. FINANCIAL POSITION OF THE COMPANY

Below is a summary of the financial position of the Company at the end of the reporting period:

	2017 HK\$'000	2016 HK\$'000
Non-current assets		
Interest in subsidiaries	13,163	13,163
Amounts due from subsidiaries	1,132,294	1,106,053
Available-for-sales investments	58,264	10,769
	<u>1,203,721</u>	<u>1,129,985</u>
Current assets		
Bank balances and cash	47,348	99,362
Amounts due from subsidiaries	596,882	498,103
Other assets	1,409	1,734
	<u>645,639</u>	<u>599,199</u>
Current liabilities		
Payables and accruals	(23,357)	(21,087)
Bank borrowings	(264,741)	(175,585)
Amounts due to subsidiaries	(352,732)	(321,440)
	<u>(640,830)</u>	<u>(518,112)</u>
Net current assets	<u>4,809</u>	<u>81,087</u>
Net assets	<u>1,208,530</u>	<u>1,211,072</u>
Share capital	27,797	27,757
Share premium	73,400	72,533
Other reserves (<i>Note below</i>)	1,107,333	1,110,782
Total equity	<u>1,208,530</u>	<u>1,211,072</u>

Notes to the Consolidated Financial Statements

FOR THE YEAR ENDED 31 DECEMBER 2017

45. FINANCIAL POSITION OF THE COMPANY (CONTINUED)

Note: The movement in other reserves are presented below:

	Investments reserve HK\$'000	Share options reserve HK\$'000	Contributed surplus HK\$'000	Retained profits HK\$'000	Total HK\$'000
At 1 January 2016	2,506	2,143	29,186	1,128,444	1,162,279
Loss for the year	–	–	–	(45,404)	(45,404)
Other comprehensive income for the year	972	–	–	–	972
Total comprehensive income (expense) for the year	972	–	–	(45,404)	(44,432)
Issue of shares upon exercise of share option	–	(58)	–	–	(58)
Recognition of equity-settled share-based payment	–	1,320	–	–	1,320
Dividend recognised as distribution	–	–	–	(8,327)	(8,327)
At 31 December 2016	3,478	3,405	29,186	1,074,713	1,110,782
Loss for the year	–	–	–	(1,851)	(1,851)
Other comprehensive income for the year	6,451	–	–	–	6,451
Total comprehensive income (expense) for the year	6,451	–	–	(1,851)	4,600
Issue of shares upon exercise of share options	–	(219)	–	–	(219)
Recognition of equity-settled share-based payment	–	509	–	–	509
Dividend recognised as distribution	–	–	–	(8,339)	(8,339)
At 31 December 2017	9,929	3,695	29,186	1,064,523	1,107,333

Financial Summary

RESULTS

	For the year ended 31 December				
	2013 HK\$'000	2014 HK\$'000	2015 HK\$'000	2016 HK\$'000	2017 HK\$'000
Revenue	1,643,902	1,716,868	1,145,780	1,128,417	1,010,768
Profit before taxation	266,234	185,603	281,845	277,652	447,890
Income tax expense	(11,146)	(9,736)	(42,532)	(24,919)	(77,746)
Profit for the year	255,088	175,867	239,313	252,733	370,144
Attributable to:					
Owners of the Company	254,368	176,174	240,684	236,209	367,835
Non-controlling interests	720	(307)	(1,371)	16,524	2,309
	255,088	175,867	239,313	252,733	370,144

ASSETS AND LIABILITIES

	at 31 December				
	2013 HK\$'000	2014 HK\$'000	2015 HK\$'000	2016 HK\$'000	2017 HK\$'000
Total assets	3,334,635	3,625,787	4,334,643	5,676,445	7,507,126
Total liabilities	(1,013,263)	(1,174,547)	(1,735,480)	(2,725,659)	(3,976,295)
Net assets	2,321,372	2,451,240	2,599,163	2,950,786	3,530,831
Attributable to:					
Owners of the Company	2,245,258	2,375,958	2,546,982	2,827,979	3,236,162
Non-controlling interests	76,114	75,282	52,181	122,807	294,669
	2,321,372	2,451,240	2,599,163	2,950,786	3,530,831

Particulars of Investment Properties

AT 31 DECEMBER 2017

Name of property and location	Lease terms	Use
Investment properties		
Singapore		
#11-07/23 Maxwell House 20 Maxwell Road Singapore	Long-term lease	Commercial
#01-08 23 Dalvey Estate Singapore	Freehold	Residential
#03-07 23 Dalvey Estate Singapore	Freehold	Residential
Hong Kong		
8th Floor Far East Finance Centre 16 Harcourt Road Hong Kong	Long-term lease	Commercial
8th Floor 9 Queen's Road Central Hong Kong	Long-term lease	Commercial
6 Carparking spaces and carport basement 9 Queen's Road Central Hong Kong	Long-term lease	Commercial
23rd Floor, United Centre 95 Queensway Hong Kong	Long-term lease	Commercial
33rd Floor, United Centre 95 Queensway Hong Kong	Long-term lease	Commercial
Unit 1, 11th Floor Eastern Harbour Centre 28 Hoi Chak Street Hong Kong	Medium-term lease	Industrial/Office

Particulars of Investment Properties

AT 31 DECEMBER 2017

Name of property and location	Lease terms	Use
Unit 5, 17th Floor Eastern Harbour Centre 28 Hoi Chak Street Hong Kong	Medium-term lease	Industrial/Office
Unit 5, 7th Floor New Treasure Centre 10 Ng Fong Street Hong Kong	Medium-term lease	Industrial/Office
Flat B, 7/F., Ming Kung Mansion Kam Din Terrence 22 Tai Koo Shing Road Hong Kong	Long-term lease	Residential
Japan		
Rinku Gate Tower Building 1 Rinku-Ouraikita Izumisaho, Osaka Japan	Freehold	Commercial and hotel
Toyoko Inn Naha Asahi-bashi Ekimae 1-20, 2 chome, Kume Naha City, Okinawa Japan	Freehold	Hotel
Toyoko Inn Kanazawa Kenrokuen Korinbo 2-4-28, Korinbo, Kanazawa City, Ishikawa Japan	Freehold	Hotel
Toyoko Inn Shonan Hiratsuka-eki Kitaguchi No.1 1-1 Akashicho, Hiratsuka City, Kanagawa Japan	Freehold and medium-term lease	Hotel
Toyoko Inn Niigata Furumachi 1168-2, 7 Bancho, Kamiokawamaedori Chuo-Ku Niigata City, Niigata, Japan	Freehold	Hotel
Toyoko Inn Tokushima Ekimae 1-5, Ryogokuhoncho, Tokushima City, Tokushima Japan	Freehold	Hotel

Particulars of Investment Properties

AT 31 DECEMBER 2017

Name of property and location	Lease terms	Use
Dormy Inn Premium Otaru No. 123 Inaho, 3-chome Otaru-shi, Hokkaido, Japan	Freehold	Hotel
Hakodate Rich Hotel Goryokaku 35-3, Goryokaku-chu Hakodate-shi, Hokkaido Japan	Freehold	Hotel
First Cabin Tsukiji 11-10, 2-chome, Tsukiji Chuo-ku, Tokyo Japan	Freehold	Hotel
The b'Kyoto Sanjo 49-1, Nichome, Sanjo-dori Ohashi-higashi, Higashiyama-ku, Kyoto-shi, Kyoto, Japan	Freehold	Hotel
SK Kashiwa 14-1, Suehirocho, Kashiwa City Chiba Japan	Freehold	Commercial and hotel
Otaru Grand Hotel Classic 8-25, 1-Chome, Ironai, Otaru City, Hokkaido, Japan	Freehold	Hotel
Piece Hostel Kyoto 21-1, Higashisannocho, Higashikujo, Kyoto City, Kyoto, Japan	Freehold	Hostel
Piece Hostel Sanjo 531, Asakuracho, Tominokoji-dori Sanjo-Sagaru, Nakagyo-ku, Kyoto City, Kyoto, Japan	Freehold	Hostel
Best Western Sapporo Odori Koen 2, 8-chome, Odorinishi, Chuo-ku, Sapporo, Hokkaido, Japan	Freehold	Hotel