China Tian Yuan Healthcare Group Limited

(Formerly known as City e-Solutions Limited)

(Incorporated in the Cayman Islands with limited liability)

(STOCK CODE: 557)

Annual Report

2017

Contents

Mission Statement

To invest in businesses with high growth potential so as to increase shareholder value.

Chairman's Statement

On behalf of the board (the "Board" or "Board of Directors") of directors (the "Directors") of the Company, I am pleased to present China Tian Yuan Healthcare Group Limited (the "Company") and its subsidiaries (the "Group") results for the financial year ended 31 December 2017 ("FY2017") The Group recorded a net profit attributable to the equity shareholders of the Company of approximately HK$14.9 million for FY2017 as compared with a net loss attributable to the equity shareholders of the Company of approximately HK$57.6 million in the previous corresponding year. The reduction in net loss was due mainly to the revenue earned from the Group's newly set up Money Lending and Related Business segment and the net realised and unrealised foreign exchange gain and valuation gain on trading securities for FY2017.

Investment Holding Segment

The Group's Investment Holding segment recorded net realised and unrealised valuation gain of approximately HK$25.5 million from the Group's trading securities for FY2017. Net realised and unrealised foreign exchange gain of approximately HK$4.7 million was also recorded, which mainly arose from the Renminbi denominated cash deposits of the Company. Overall, total net realised and unrealised gain of approximately HK$30.2 million was recorded for FY2017 as compared with the total net realised and unrealised loss of approximately HK$15.8 million in the previous corresponding year. The total net realised and unrealised gain was partially offset by the higher administrative expenses mainly arise from the increase in Director fee of approximately HK$14.5 million and professional fee of approximately HK$10.8 million as compared with previous corresponding period. Consequently, the Group's Investment Holding segment reported a loss before tax of approximately HK$22.0 million for FY2017 as compared with a loss before tax of approximately HK$54.2 million in the previous corresponding year.

Hospitality Segment

On the Group's Hospitality segment, the Group's U.S. hotel management arm, Richfield Hospitality, Inc. recorded higher management fee income of approximately HK$10.6 million for FY2017, up by approximately HK$0.1 million from approximately HK$10.5 million in the previous corresponding year. The increase in revenue with lower administrative expenses which resulted in a loss before tax of approximately HK$9.4 million for FY2017 as compared with a loss before tax of approximately HK$12.2 million in the previous corresponding year.

The Sheraton Chapel Hill Hotel, North Carolina, U.S. contributed total revenue of approximately HK$22.0 million as compared with approximately HK$24.4 million from the previous corresponding year. The hotel recorded a loss before tax of approximately HK$2.5 million for FY2017 as compared with a profit contribution of approximately HK$2.0 million in the previous corresponding year.

The Group's 51% equity interest in Sceptre Hospitality Resources, LLC together with its subsidiaries, Sceptre Hospitality Resources Pte Ltd, Sceptre Hospitality Resources Europe S.L. and Cross-Tinental S.L. ("SHR Group"), the hospitality industry's leading expert for reservations connectivity, online channel marketing and revenue/channel-management services, recorded higher revenue of HK$73.3 million, up by approximately HK$11.5 million or 18.6% from approximately HK$61.8 million in the previous corresponding year. However, SHR Group incurred higher administrative expenses during FY2017 to support the revenue growth, resulting in an operating loss of approximately HK$26.5 million as compared with an operating loss of approximately HK$6.4 million in the previous corresponding year.

The Group also recognised share of profit from its associates, S-R Burlington Partners, LLC. and Cosmic Hospitality China Limited, of approximately HK$0.3 million for FY2017, as compared to a share of profit of HK$0.5 million previous corresponding year. Cosmic Hospitality China Limited was disposed in September 2017 with consideration of HK$2.3 million.

Consequently, the Group's Hospitality segment reported a loss before tax of approximately HK$38.1 million for FY2017 as compared with a profit before tax of approximately HK$3.5 million in the previous corresponding year. The profit before tax in the previous corresponding year was mainly due to the disposal of Crowne Plaza Syracuse Hotel, New York, U.S. in May 2016 which contributed an additional share of profit before tax of HK$19.6 million.

Healthcare Segment

On 31 August 2017, the Company effectively obtained 51% of the enlarged issued share capital of PRIP Communications Limited ("PRIP") and obtained control of PRIP, and its wholly owned subsidiary DIAM Holdings Co., Ltd. ("DIAM"). PRIP and DIAM forms the Group's new Healthcare segment. For the four months ended 31 December 2017, PRIP contributed royalty income of approximately HK$2.7 million, and DIAM contributed service income of approximately HK$4.0 million. PRIP has fulfilled the performance guarantee in FY2017, please refer to the announcement of the Company dated 30 May 2017, 17 August 2017 and 28 March 2018 for further details.

Chairman's Statement

Money Lending and Related Business Segment

Money Lending and Related Business is a new segment to the Group. This segment contributed referral fee of HK$47.4 million, handling income of HK$6.1 million and interest income from third parties loans of HK$5.7 million for FY2017. No such income arose in the previous corresponding year.

As at 31 December 2016, the Group assessed the availability of future taxable profit against which the tax losses can be utilised and recognized a reduction of the deferred tax assets by HK$10.2 million for the year ended 31 December 2016. There was no such adjustment in FY2017. This resulted in an income tax expense of HK$2.3 million in FY2017, as compared to an income tax expense of HK$10.6 million the previous corresponding year.

Basic earnings per share for FY2017 was HK3.83 cents, calculated on the weighted average number of ordinary shares of the Company in issue during the year of 387,959,524. The Group's net tangible assets per share decreased to HK$0.58 as at 31 December 2017, down from HK$1.10 at 31 December 2016. The Board did not propose a final dividend for FY2017.

PROSPECTS

The Group remains cautious in the midst of the global uncertainty, though real estate and hospitality markets in the U.S. have remained active. The Group is in consultation with its joint venture partners to respond to market interests in our investments.

The Group will adopt a prudent approach in managing the hospitality related businesses by ensuring costs are kept in line with the level of business activities in order to reduce loss in the segment.

Besides the Hospitality segment, the Group is exploring the healthcare sector. China's plastic surgery industry is on a fast growth track. According to Zhongshang Industry Research Institute, the medical aesthetic industry in China had a turnover amounted to RMB51.1 billion in 2015 and maintained an annual growth rate over 20% in the past 4 years. With the further improvement of living standards and higher acceptance of medical beauty in general public, the medical aesthetic market in China will further expanded in the future. According to Changjiang Securities' research report, it is expected that the market size of the medical aesthetic industry in China will be amounted to RMB252.4 billion by 2025, which is nearly 5 times of the current market size and represents an enormous room for growth.

In order to diversify the business of the Group and maximise returns to the shareholders of the Company (the "Shareholders"), the Group has been actively seeking various investment opportunities in high-growth healthcare-related industries, including but not limited to the plastic surgery and assisted reproductive IVF services hospitals in China and other Asia markets.

In addition, the Group commenced a new business segment during the year by entering into money lending and related businesses which include lender or borrower referral business, fund matching, fund arrangement and/or fund participation (the "New Business Activities") but exclude any regulatory activities under the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong). The Group intends to develop the New Business Activities by leveraging and making good use of the resource and network of the two executive Directors in banking and finance industries. The Group is in the process of applying for the money lending licence.

The Group will continue to hold some trading securities and will monitor and make appropriate changes on the investment portfolio time to time to cope with the economic environment. In addition, the Group will explore different short-term investment plans to improve its investment return by using the cash reserves on hand in different currencies. From time to time, there could be continued adjustments attributable to unrealised gains or losses arising from the fair value measurement of the Group's trading securities and unrealised gains or losses on the revaluation of foreign currency cash deposits.

On behalf of the Board of Directors, I would like to thank all customers, business partners, Shareholders, management and staff for their continued support of the Group.

Jiang Yulin
Chairman
25 April 2018

Financial Statistics Summary

Consolidated Statement of Profit or Loss

	The Group				
	2017 HK$'000	2016 HK$'000	2015 HK$'000	2014 HK$'000	2013 HK$'000
Continuing operations					
Revenue	**175,280**	100,654	92,207	100,130	102,838
Profit/(Loss) before taxation	**902**	(50,743)	(48,336)	(23,478)	16,304
Income tax expense	**(2,330)**	(10,556)	(13,638)	4,964	(442)
(Loss)/Profit for the year	**(1,428)**	(61,299)	(61,974)	(18,514)	15,862
Attributable to:					
Equity shareholders of the Company	**14,877**	(57,550)	(55,067)	(18,978)	17,169
Non-controlling interests	**(16,305)**	(3,749)	(6,907)	464	(1,307)
(Loss)/Profit for the year	**(1,428)**	(61,299)	(61,974)	(18,514)	15,862
Earnings per share					
Basic earnings/(loss) per share (HK cents)	**3.83**	(15.05)	(14.40)	(4.96)	4.49
Continuing operations					
Basic earnings/(loss) per share (HK cents)	**3.83**	(15.05)	(14.40)	(4.96)	4.49

Financial Statistics Summary

Consolidated Statement of financial position

	The Group				
	2017	**2016**	**2015**	**2014**	**2013**
	HK$'000	**HK$'000**	**HK$'000**	**HK$'000**	**HK$'000**
Property, plant and equipment	**55,383**	41,058	43,351	41,904	41,903
Intangible assets	**161,311**	7,064	8,167	10,873	13,588
Goodwill	**94,837**	8,941	8,934	8,942	8,937
Available-for-sale financial assets	**18,321**	18,179	32,985	33,016	32,996
Long term bank deposits	**–**	–	3,797	9,780	9,495
Interest in a joint venture	**–**	–	–	–	9,340
Interest in associates	**6,682**	8,491	8,322	8,880	8,673
Deferred tax assets	**–**	–	10,183	24,632	20,804
Trade and other receivables	**28,567**	–	–	–	–
Other financial assets	**13,120**	–	–	–	–
Current assets	**340,895**	446,436	494,141	536,026	535,295
Total assets	**719,116**	530,169	609,880	674,053	681,031
Current liabilities	**(37,100)**	(28,827)	(30,382)	(30,893)	(34,334)
Total assets less current liabilities	**(682,016)**	501,342	579,498	643,160	646,697
Employee benefits	**–**	–	–	–	(1,632)
Deferred consideration	**(1,719)**	–	–	–	–
Dividends received in excess of earnings from equity-method accounted joint venture	**(227)**	(209)	(19,487)	(17,256)	–
Interest-bearing borrowings	**(28,946)**	(28,982)	(29,591)	(30,394)	(31,229)
Loan from non-controlling interests	**(42,787)**	(2,908)	–	–	–
Deferred rental expenses	**(586)**	–	–	–	–
Deferred tax liabilities	**(15,908)**	–	–	–	–
Other financial liabilities	**(16,787)**	–	–	–	–
Net assets	**575,056**	469,243	530,420	595,510	613,836
Capital and reserves					
Share capital	**398,980**	382,450	382,450	382,450	382,450
Share premium	**20,663**	–	–	–	–
Reserves	**68,134**	52,205	109,653	167,784	186,586
Total equity attributable to equity shareholders of the Company	**487,777**	434,655	492,103	550,234	569,036
Non-controlling interests	**87,279**	34,588	38,317	45,276	44,800
Total equity	**575,056**	469,243	530,420	595,510	613,836

Financial Statistics Summary

Major Properties

Hotels	Tenure	Approximate Site Area (sq. Metres)	Number of Rooms	Effective Group Interest (%)
Sheraton Chapel Hill Hotel 1 Europa Drive Chapel Hill, North Carolina, U.S.	Fee Simple	20,072	168	43

Products and Services

SWAN Holdings Limited Group (“SWAN ”)
SWAN, a subsidiary of the Company, provides integrated solutions to the hospitality industry. SWAN can help hoteliers manage their properties in a more effective, competitive and cost efficient manner. The SWAN team offers a host of value-added services and expertise in all facets of hotel operation through its two business divisions: Richfield and Sceptre.

Richfield Hospitality Services (Hotel Management)
Richfield is an established and highly reputable hotel management company. With strong industry relations and global experience, Richfield is authorized to operate hotels under leading brand affiliations as well as to provide hotel operations and marketing for independently branded properties. For over three decades, Richfield has successfully managed and skillfully developed hotel assets across all markets, categories and consumer segments while specializing in operating premier resorts, full service hotels and limited service properties. As at 31 December 2017, Richfield managed around 2,049 rooms in the form of operational management contracts, asset management, ownership and/or shared investment, with franchise licenses from leading hotel companies including Hilton, Starwood, Marriott, and Choice International. Richfield also operates several independent (non-brand affiliated) properties.

Every client's property benefits from the vast experience and industry expertise of Richfield's senior management. Each assignment begins by determining the needs of the owner. Richfield reviews the property's prior performance, identifies opportunities and assesses challenges. Richfield then tailors the appropriate solution to deliver immediate and visible improvement in the performance of the property.

With Richfield resources, processes, systems, and technologies, the results typically generate increased profitability to the owner and an upgraded and enhanced experience for each guest. For the past 32 years, Richfield has revitalized over 250 properties, ranging from independent and boutique hotels to large, city centre properties and under virtually every industry brand. Richfield achieves superior operating results through intense focus on ensuring a return on investment for all stakeholders. This is accomplished through its strong commitment to guests, employees and owners.

Services offered by Richfield cover all aspects of hotel management including:
– Annual Business Planning
– Operations Improvement
– Sales & Marketing Consultancy
– Revenue and Channel Management
– Management of Franchise Affiliation
– Human Resources Management
– Accounting and Budgeting
– Asset Management Services

Consistent efforts to grow client relationships and to maximize the profitability of the hotels have culminated in the successful positioning of Richfield as a respected industry player.

Sceptre Hospitality Resources (Reservation Distribution)
Sceptre Hospitality Resources (SHR) is a leading provider and pioneer of advanced tools and services that help hotels execute their best distribution strategy while delighting guests and optimizing profitability. For technology driven distribution, operational efficiencies, and client management, the technical maturity of SHR is second to none. In addition to serving thousands of properties around the globe with Windsurfer® CRS and Booking Engine, the company also provides Revenue Management for Hire to brands, chains, and management companies. SHR brings hoteliers nimble technology, intelligently supported by tested industry experts—keeping hotels competitive.

SHR believes that the Central Reservations System (CRS) should be a complete hotel distribution platform. That's why Windsurfer CRS offerings feature advanced capabilities that allow clients to easily manage their rates and inventory across all distribution channels, providing not only one of the best booking engines on the market, but also the strongest integrations and connections, from the leading Online Travel Agencies (OTAs) to the top meta-search sites, to GDS and IDS.

Products and Services

SHR continues to enhance its Windsurfer offerings with regular system updates, including room class availability, configurable add-ons, and blended rates. The Windsurfer channel manager is also offered to connect to hundreds of niche OTAs around the globe. This is why Windsurfer continues to be a preferred distribution platform for a wide variety of hotel properties, including Wynn Las Vegas, Red Lion Hotels, Millennium & Copthorne, and Tune Hotels.

Windsurfer® CRS Essentials

In the complex world of distribution, small and independent properties can find it hard to reach the same target markets as their larger counterparts. Essentials solves this problem by making it easy for all hotels to become part of the global distribution network. With streamlined, out-of-the-box features, Essentials allows hotels to sell their rooms to millions of potential guests while they manage their entire distribution portfolio—rates, inventory, and channel mix—with cloud-based control.

Windsurfer® CRS Enterprise

An enhanced version of SHR's original Windsurfer, Enterprise brings a fresh look and feel geared toward hotel groups and chains that require a full-service CRS experience. This includes a choice of standard or fully-customized booking engines, and professional account management on different levels and in multiple languages, tailored to each hotel's needs.

Windsurfer® Booking Engine

The Windsurfer Booking Engine gives hotels the flexibility to easily merchandise and sell their rooms, packages, and add-ons in virtually any way they choose. Offering a responsive design, shopping cart-style booking process, persuasive messaging, room upgrading, and many other unique features, the Windsurfer Booking Engine is fully optimized for single property independents, multi-property groups, and chains, allowing cross-selling features and suggestive selling prompts.

Because the Windsurfer Booking Engine was designed responsively, it can automatically adjust to any device or screen size, meaning there is no need to maintain a separate "mobile" booking engine. Today's tech-savvy guests will get the same, seamless experience no matter where or how they book. And with the creation of the Call to Continue™ and Save for Later features, guests can book across multiple devices with ease. A guest may begin researching hotels on a desktop computer at work, continue booking on a tablet at home, and finish the reservation later via a mobile phone.

Revenue Management for Hire

In addition to its innovative technology, SHR also provides an outsourced revenue management service for properties of any size and brand affiliation. Dedicated to finding revenue solutions that work for specific situations, SHR's experienced revenue managers provide unique insight to help build and maintain a winning revenue management strategy for today's hoteliers.

Industry Experience. The SHR Revenue Management team has worked with almost every major brand, as well as independent hotels and resorts, and can provide strategy support for budgeting and long-range forecasting through renovations, re-brandings, and grand openings, no matter the economic climate.

Revenue Expertise. The SHR team boasts a meaningful list of certifications, including HSMAI's Certified Revenue Management Executive and Hotel Revenue Management Certified from eCornell, so hotels can be sure they are getting not only dedication but quality. Because SHR knows that the industry is always changing, they make ongoing training for their revenue management teams a priority.

Intelligent Reporting. SHR has created best-in-class, customized reporting tailored to each hotel so they get a clearer picture of every aspect of the hotel's revenue strategy. This includes discounted STR reports and a monthly scorecard, which provides them with current performance metrics in their competitive set, and a quick snapshot of their hotel's performance.

Business Review

Group Performance

The Group recorded revenue of HK$175.3 million for FY2017, an increase of HK$74.6 million or 74.1% from HK$100.7 million in the previous corresponding year ("FY2016") due mainly to the higher revenue generated from SHR Group and new revenue stream generated from the Group's newly set up Money Lending and Related Business segment.

The Group reported a net profit attributable to the equity shareholders of the Company of HK$14.9 million for FY2017 as compared with a net loss attributable to equity shareholders of the Company of HK$57.6 million in FY2016, mainly due to the profit earned from the Group's newly set up Money Lending and Related Business segment and the net realised and unrealised foreign exchange gain and valuation gain on trading securities for FY2017.

The analysis of the Group's revenue and profit and loss from operations by business segments are set out in the notes to the financial statements.

Investment Holding

The Group's Investment Holding segment reported lower dividend and interest income of HK$3.2 million in FY2017, as compared to HK$3.9 million in FY2016.

The result of this segment was positively impacted by the net realised and unrealised valuation gain of HK$25.5 million from the Group's trading securities holding as at 31 December 2017. The previous major component in the Group's trading securities holding was the shares held in Millennium & Copthorne Hotels plc ("M&C"), which is a hospitality and real estate company listed on the London Stock Exchange and was disposed during the year. M&C contributed realised valuation gain of HK$2.4 million in FY2017.

Net realised and unrealised foreign exchange gain of HK$4.7 million was also recorded, which mainly arose from the conversion of Renminbi denominated cash deposits of HK$46.5 million, into the functional currency of the Company. Overall, the total net realised and unrealised gain of HK$30.2 million was recorded for FY2017 as compared with the total net realised and unrealised loss of HK$15.8 million in FY2016.

The total net realised and unrealised gain was partially offset by the higher administrative expenses mainly arise from the increase in Director fee of approximately HK$14.5 million and professional fee of approximately HK$10.8 million as compared with previous corresponding period.

Overall, the Investment Holding segment recorded a loss before tax of HK$22.0 million for FY2017 as compared with loss before tax of HK$54.2 million in FY2016.

Hospitality

The Group's Hospitality segment contributed total revenue of HK$106.0 million in FY2017, an increase of HK$9.3 million or 9.6% from HK$96.7 million in FY2016.

Richfield Hospitality, Inc ("RHI"), the Group's hotel management arm, recorded higher management fee income of HK$10.6 million for FY2017, up by approximately HK$0.1 million from HK$10.5 million in FY2016. Management has prudently operated this business by ensuring that expenses were under control throughout FY2017. Consequently, a lower loss before tax of HK$9.4 million was recorded for FY2017 as compared with a loss before tax of HK$12.2 million in FY2016.

The Group's 51% equity interest in Sceptre Hospitality Resources, LLC together with its subsidiaries, Sceptre Hospitality Resources Pte. Ltd, Sceptre Hospitality Resources Europe S.L. and Cross-Tinental S.L. ("SHR Group"), the hospitality industry's leading expert for reservations connectivity, online channel marketing and revenue/channel-management services, recorded higher revenue of HK$73.3 million, up by approximately HK$11.5 million or 18.6% from HK$61.8 million in FY2016. However, SHR Group incurred higher administrative expenses during FY2017 to support the revenue growth, resulting in a higher operating loss of HK$26.5 million as compared with an operating loss of HK$6.4 million in FY2016.

The Group's jointly-operated Sheraton Chapel Hill Hotel, North Carolina, U.S. contributed total revenue of HK$22.0 million, down by approximately HK$2.4 million or 9.8% from HK$24.4 million in FY2016. The decrease in revenue resulted in a loss before tax of HK$2.5 million in FY2017 as compared to HK$2.0 million in FY2016.

The Group also recognised share of profit from its associates, S-R Burlington Partners, LLC and Cosmic Hospitality China Limited, of approximately HK$0.3 million for FY2017, as compared to a share of profit of HK$0.5 million in FY2016. Cosmic Hospitality China Limited was disposed in September 2017 with consideration of HK$2.3 million.

Overall, the Hospitality segment reported a loss before tax of HK$38.1 million in FY2017 as compared with a profit before tax of HK$3.5 million in FY2016.

Business Review

Money Lending and Related Business

During the year, the Group commenced a new business segment by entering into Money Lending and Related Business which include lender or borrower referral business, fund matching, fund arrangement and/or fund participation (the "New Business Activities") but exclude any regulatory activities under the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong). The Group intends to develop the New Business Activities by leveraging and making good use of the resource and network of the two executive Directors in banking and finance industries. The Group is in the process of applying for the money lending licence.

This new segment will contributed referral fee of HK$47.4 million, handling income of HK$6.1 million and interest income from third parties loans of HK$5.7 million for FY2017. No such income arose for FY2016.

Material Acquisitions and Disposals of Subsidiaries, Associates and Joint Venture

On 31 August 2017, the Company effectively obtained 51% of the enlarged issued share capital of PRIP Communications Limited ("PRIP") and obtained control of PRIP, and its wholly owned subsidiary DIAM Holdings Co., Ltd. ("DIAM"). PRIP and DIAM forms the Group's new Healthcare segment. For the four months ended 31 December 2017, PRIP contributed royalty income of approximately HK$2.7 million, and DIAM contributed service income of approximately HK$4.0 million. PRIP has fulfilled the performance guarantee in FY2017, please refer to the announcements of the Company dated 30 May 2017, 17 August 2017 and 28 March 2018 for further details. Other than disclosed herein, the Group had no material acquisitions and disposals of subsidiaries, associates and joint venture during the year.

Financial Position

As at 31 December 2017, the Group's total assets stood at HK$719.1 million, increased from HK$530.2 million as at 31 December 2016. The Group's net tangible asset per share decreased to HK$0.58 as at 31 December 2017, down from HK$1.10 as at 31 December 2016.

As at 31 December 2017, the Group's working capital ratio was 9.2 (2016: 15.5).

The Group reports its results in Hong Kong Dollar and it is the objective of the Group to preserve its value in terms of Hong Kong Dollar. It is the Group's policy to continue to pursue strategies that would enhance the Group's long-term value and bring reasonable returns to the Shareholders with a cautious attitude.

Cash Flow and Borrowings

During FY2017, cash used in operations amounted to HK$163.9 million. It was partially offset by the receipt of cash dividend from trading securities of HK$1.0 million and interest income of HK$5.6 million during the year, these result in net cash used in operating activities amounted to HK$157.3 million.

In FY2017, the Group recorded net cash outflow for the acquisition of subsidiaries amounted to HK$121.9 million. The cash outflow was partially offset by HK$52.7 million from sales of trading securities and there was an increase of HK$39.7 million in loan from non-controlling interests. The total interest paid in FY2017 amounted to HK$1.2 million.

Overall, HK$210.6 million net cash was used which, together with exchange translation gain of HK$5.1 million, resulted in a total Group's cash and cash equivalents of HK$132.3 million as at 31 December 2017, down from HK$337.8 million as at 31 December 2016.

Taking into account of the Group's bank borrowings of HK$29.9 million as at 31 December 2017, the Group was in a net cash position amounting to HK$102.4 million as at 31 December 2017. Hence, the Group's gearing is zero, which is expressed as a percentage of current and non-current loans and borrowings less cash and cash equivalents over total equity attributable to equity shareholders of the Company.

As at 31 December 2017, the Group's bank borrowings, denominated in U.S. Dollars and fixed at 4.21% per annum, amounted to HK$29.9 million (2016: HK$29.7 million), of which HK$0.9 million was current, as included in the portion of interest-bearing borrowing repayable within a period of one year, and HK$29.0 million was non-current and repayable between 1 and 6 years. The bank loans of the Group are secured over the freehold land and building with a carrying amount of HK$36.2 million, pledge of monies held in specific accounts of HK$2.6 million and a non-recourse carveout guarantee by RHI. In addition, during FY 2017, the Group had fully complied with financial covenants agreed with the financial institutions.

Treasury Activities

Majority of the Group's cash is held in Chinese Renminbi and United States Dollar cash deposits. We will closely monitor the Group's exposure to currency movement and take the appropriate action when necessary.

Directors and Employees

As at 31 December 2017, the Group had a total of 84 employees, including directors but excluding employees from the Hotel, up from 83 as at 31 December 2016. There were 58 (2016: 57) full-time employees from the Hotel as at 31 December 2017.

Business Review

The total Group's staff costs comprising salaries, wages and other benefits was HK$105.7 million as compared with HK$71.6 million in FY2016. The increase in payroll costs can be attributed mainly to the Investment Holding segment.

The Group has a competitive wage and benefits package which are critical to maintaining a level of consistent and quality services.

The Group has conducted a range of training programmes to strengthen employees' all round skills and knowledge, aiming to well-equip them to cope with its development in the ever-changing economy.

Principal Risks and Uncertainties

The Group's financial condition, results of operations, businesses and prospects would be affected by a number of risks and uncertainties including business risks, operational risks and financial management risks.

A Group's subsidiary which operates primarily to supply hotels with electronic distribution technology is susceptible to information technology risk. The Group strives to maintain safe data hosting environments that are compliant with the Payment Card Industry ("PCI") data security standards and guidelines and constantly monitors the environment in which its software applications are hosted.

The Company's Money Lending and Related Business is susceptible to credit risk. The Group refers to the money lending policy and guidelines for credit assessment on the borrowers, including evaluating a prospective borrowers' financial condition and assessing possible loan collateral. The related agreements are monitored continuously to ensure that the terms are being followed.

The financial risk management policies and practices of the Group are shown in note 32 to the financial statements.

There may be other risks and uncertainties in addition to those mentioned above which are not known to the Group or which may not be material now but could turn out to be material in the future.

Compliance with the Relevant Laws and Regulations

As far as the Board of Directors and management are aware, the Group has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Group. During the year, there was no material breach of or non-compliance with the applicable laws and regulations by the Group.

Relationship with Suppliers, Customers and other Stakeholders

The Group understands the importance of maintaining a good relationship with its suppliers and customers to meet its immediate and long-term goals. The hotel management arm has implemented corporate citizenship programs to enhance relationships with customers. It enjoys good relationships with suppliers and customers and strives to take an active part in the communities where they operate. Staff are encouraged to devote time to help non-profit organisations like Food Banks or to participate in local fund raising activities. During FY2017, there were no material and significant dispute between the Group and its suppliers and/or customers.

Environmental Policies and Performance

The Group is committed to the long term sustainability of the environment and communities in which it operates. Acting in an environmentally responsible manner, the Group endeavours to comply with laws and regulations regarding environmental protection and adopt effective measures to achieve efficient use of resources, energy saving and waste reduction. Green initiatives and measures have been adopted in the Group's own hotels and Group's managed hotels. Such initiatives include recycling of used papers, energy saving measures and water saving practices. A report containing the prescribed information of environmental, social and governance matters will be available on the website of The Stock Exchange of Hong Kong Limited ("Hong Kong Stock Exchange") and the Company's third party hosted website at http://www.merrillifn.com/IR/company.php?ref=13 no later than three months after publication of this report.

PROSPECTS

The Group remains cautious in the midst of the global uncertainty, though real estate and hospitality markets in the U.S. have remained active. The Group is in consultation with its joint venture partners to respond to market interests in our investments.

The Group will adopt a prudent approach in managing the hospitality related businesses by ensuring costs are kept in line with the level of business activities in order to reduce loss in the segment.

Besides the hospitality segment, the Group is exploring the healthcare sector. China's plastic surgery industry is on a fast growth track. According to Zhongshang Industry Research Institute, the medical aesthetic industry in China had a turnover amounted to RMB51.1 billion in 2015 and maintained an annual growth rate over 20% in the past 4 years. With the further improvement of living standards and higher acceptance of medical beauty in general public, the

Business Review

medical aesthetic market in China will further expanded in the future. According to Changjiang Securities' research report, it is expected that the market size of the medical aesthetic industry in China will be amounted to RMB252.4 billion by 2025, which is nearly 5 times of the current market size and represents an enormous room for growth.

In order to diversify the business of the Group and maximise returns to the Shareholders, the Group has been actively seeking various investment opportunities in high-growth healthcare-related industries, including but not limited to the plastic surgery and assisted reproductive IVF services hospitals in China and other Asia markets.

In addition, the Group commenced a new business segment during the year by entering into money lending and related businesses which include lender or borrower referral business, fund matching, fund arrangement and/or fund participation (the "New Business Activities") but exclude any regulatory activities under the Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong). The Group intends to develop the New Business Activities by leveraging and making good use of the resource and network of the two executive Directors in banking and finance industries. The Group is in the process of applying for the money lending licence.

The Group will continue to hold some trading securities and will monitor and make appropriate changes on the investment portfolio time to time to cope with the economic environment. In addition, the Group will explore different short-term investment plans to improve its investment return by using the cash reserves on hand in different currencies. From time to time, there could be continued adjustments attributable to unrealised gains or losses arising from the fair value measurement of the Group's trading securities and unrealised gains or losses on the revaluation of foreign currency cash deposits.

Events After the Reporting Period

At the Extraordinary General Meeting held on 29 March 2018, the shareholders of the Company approved a special mandate for the allotment and issuance of 37,862,500 new shares to Mr. Jiang Yulin, the Chairman of the Board and Executive Director of the Company.

Other than disclosed above, the Group did not have any significant events since the end of the financial year.

Corporate Governance Report
for the year ended 31 December 2017

(a) Corporate governance practices

The Directors and management of the Company ("Management") are committed to maintaining high standards of corporate governance, in line with the principles stated in the Corporate Governance Code ("CG Code") set out in Appendix 14 of the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange ("Listing Rules").

In the opinion of the Directors, the Company has complied with CG Code throughout the year under review.

The Company reviews its corporate governance practices from time to time to ensure compliance with the CG Code.

(b) Directors' securities transactions

The Company has adopted the "Model Code for Securities Transactions by Directors of Listed Issuers" as set out in Appendix 10 of the Listing Rules (the "Model Code") as the code of conduct regarding Directors' securities transactions. All Directors have confirmed that they have complied with the Model Code throughout the year under review.

(c) Board of Directors

As at the date of this annual report, the Board comprises five Directors, of which two are executive Directors and three are independent non-executive Directors. The members of the Board are as follows:

Executive Directors
Mr. Jiang Yulin (Chairman)
Ms. Zhang Xian

Independent Non-executive Directors
Mr. Hu Baihe
Mr. Yuen Kwok Kuen
Mr. Guo Jingbin

The biographical details of the Directors and senior management of the Company ("Senior Management") as at the date of this annual report are set out in the Profile on Directors and Senior Management section of the Directors' Report.

There is no relationship (including financial, business, family or other material/relevant relationship) between the Board members and in particular, between the Chairman of the Board and the chief executive officer ("CEO") of the Company.

The Company has received from each independent non-executive Director an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules and the Company considered such independent non-executive Directors to be independent.

The Board's primary functions are to set corporate policy and overall strategy for the Group and to provide effective oversight of the management of the Group's business and affairs. Apart from its statutory responsibilities, the Board also approves the strategic plans, key operational issues, investments and loans, reviews the financial performance of the Group and evaluates the performance and compensation of Senior Management. These functions are either carried out directly by the Board or through committees established by the Board. The Management is responsible for the day-to-day management and operations of the Company's business including the implementation of internal control, business strategies and plans approved by the Board. The Directors, individually or as a group, are entitled to take independent professional advice, at the expense of the Company, in furtherance of their duties and in the event that circumstances warrant it.

Corporate Governance Report

for the year ended 31 December 2017

(c) Board of Directors (cont'd)

The Company conducts regular scheduled Board meetings. Additional meetings are convened as and when circumstances warrant. The attendance of individual Directors at Board, Audit Committee, Remuneration Committee, Nomination Committee and general meetings of the Company in 2017, as well as the frequency of such meetings, is set out below:

	Attendance/Number of Meetings				
Name of Director	**Board**	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**	**Attended 2017 AGM**
Executive Directors					
Mr. Jiang Yulin	4/4	N/A	N/A	1/1	√
Ms. Zhang Xian	4/4	N/A	1/1	N/A	√
Mr. Lawrence Yip Wai Lam[1]	1/1	N/A	N/A	N/A	
Independent Non-executive Directors					
Mr. Hu Baihe	2/4	3/3	1/1	1/1	
Mr. Yuen Kwok Kuen	2/4	3/3	1/1	1/1	√
Mr. Guo Jingbin	2/4	3/3	1/1	1/1	

[1] retired on 30 June 2017
N/A – Not Applicable

(d) Directors' Training and Professional Development

All Directors should keep abreast of the responsibilities as a Director, and of the conduct and business activities of the Company. The Company is responsible for arranging and funding suitable training for its Directors. The Directors' training records for the year had been provided to the Company.

On appointment to the Board, the newly appointed Director would be provided a comprehensive induction package covering business operations and obligations of being a director to ensure that the Director would be sufficiently aware of the responsibilities under the Listing Rules and other relevant regulatory requirements.

From time to time, the Company updates and provides written materials to the Directors on the latest development of the Listing Rules, applicable laws, rules and regulations relating to directors' duties and responsibilities. All Directors confirmed that they have complied with the CG code provision A.6.5.

(e) Chairman and Chief Executive

Currently, Mr. Jiang Yulin is the Chairman of the Board. Ms. Zhang Xian is the CEO. There is a clear division of responsibilities between the Chairman of the Board and the CEO. The Chairman bears primary responsibility for the workings of the Board, by ensuring its effective function, while the CEO bears executive responsibility for the Company's business, including management of the Company's day-to-day operations and implementation of key policies, procedures and business strategies approved by the Board.

Corporate Governance Report
for the year ended 31 December 2017

(f) Independent Non-executive Directors

The independent non-executive Directors were appointed for a specific term of 2 years, subject to retirement by rotation at annual general meeting and being eligible, to offer themselves for re-election.

(g) Remuneration Committee ("RC")

The RC was established in May 2005 and comprises 3 independent non-executive Directors and 1 executive Director as at the date of this annual report. The members of the RC as at the date of this annual report are as follows:

Mr. Guo Jingbin	Chairman (Independent non-executive Director)
Mr. Yuen Kwok Kuen	Member (Independent non-executive Director)
Mr. Hu Baihe	Member (Independent non-executive Director)
Ms. Zhang Xian	Member (Executive Director)

The primary objective of the RC is to consider Management's remuneration recommendation, and determine the framework or broad policy for remuneration for the Directors and the senior key executives, including the CEO. No Director or any of his associates may be involved in any decisions as to his own remuneration.

The duties of the RC also include:

(a) To review and approve Management's remuneration recommendation and the criteria for assessing employee performance, which should reflect the Company's business objectives and targets; and

(b) To consider Management's recommendation on the payment of annual and/or variable performance bonus to employees of the Company, and review and approve the annual and/or variable performance bonus payable to the executive Directors and Senior Management, having regard to their achievements against the performance criteria and by reference to market norms.

The Group's remuneration policy for the staffs, including Directors, comprises primarily a fixed component (in the form of a base salary) and a variable component (which includes bonus and share award grants), taking into account other factors such as the individual performance, the performance of the Company and industry practices.

The RC met once during the year to discuss remuneration related matters (including the remuneration of Directors and Senior Management) and review the remuneration policy of the Group. It has been decided that RC would determine, with delegated responsibility, the remuneration packages of individual executive Directors and Senior Management.

Corporate Governance Report

for the year ended 31 December 2017

(g) Remuneration Committee ("RC") (cont'd)

The remuneration payable by band to Senior Management during the year is as follows:

	Number of Individuals
HK$Nil – HK$1,000,000	–
HK$1,000,001 – HK$1,500,000	–
HK$1,500,001 – HK$2,000,000	1
HK$2,000,001 – HK$2,500,000	–
HK$2,500,001 – HK$3,000,000	–
HK$4,000,001 – HK$4,500,000	1

Further details of Directors' and CEO's emoluments and the 5 top-paid employees of the Group during the year are set out in notes 6 and 7 to the Financial Statements.

On 9 December 2016, the Company adopted a share award scheme (the "Share Award Scheme"), pursuant to which the Board may propose or determine the grant of the Company's shares to any Directors, employees or third party service providers of the Group as their incentives and rewards so as (i) to provide them with an opportunity to acquire a proprietary interest in the Company; (ii) to encourage and retain such individuals to work with the Company; and (iii) to provide additional incentive for them to achieve performance goals, subject to such conditions as the Board may deem appropriate at its discretion. Further details of the Share Award Scheme are set out in note 27 to the Financial Statements.

At the Extraordinary General Meeting held on 29 March 2018, the shareholders of the Company approved a special mandate for the allotment and issuance of 37,862,500 new shares to Mr. Jiang Yulin, the Chairman of the Board and Executive Director of the Company.

(h) Nomination Committee ("NC")

The NC was established in August 2005 and comprises 3 independent non-executive Directors and 1 executive Director as at the date of this annual report. The members of the NC as at the date of this annual report are as follows:

Mr. Hu Baihe	Chairman (Independent non-executive Director)
Mr. Yuen Kwok Kuen	Member (Independent non-executive Director)
Mr. Guo Jingbin	Member (Independent non-executive Director)
Mr. Jiang Yulin	Member (Executive director)

The principal responsibilities of NC are to review regularly the Board composition, to identify and nominate suitable candidates as Board members, to assess the independence of the independent non-executive Directors, and to make recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors in particular, the Chairman of the Board and the CEO.

The Company has adopted a "Board Diversity Policy" on 1 September 2013 which sets out the Company's approach and the basic principles to be followed in order to achieve diversity on the Board. The Company believes diversity is important to enhance board effectiveness by encouraging a diversity of perspectives and to maintain high standards of corporate governance. The range of diversity perspectives may include a consideration of various factors, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service, and other factors based on the specific needs of the Company. The Company agrees with the general philosophy of diversity for the Board, and will pursue this philosophy whenever the opportunity arises, and when it is appropriate.

During the year under review, the NC met once to assess the independence of independent non-executive Directors and the balance and composition of the Board and Board committees. The NC also reviewed and recommended the re-election of the retiring Directors at the 2017 AGM.

Corporate Governance Report
for the year ended 31 December 2017

(i) Audit Committee ("AC")

The AC was established in compliance with Rule 3.21 of the Listing Rules for the purposes of reviewing and providing supervision over the Group's financial reporting process, risk management and internal controls. The AC comprises 3 independent non-executive Directors as at the date of this annual report. The members of the AC as at the date of this annual report are as follows:

Mr. Yuen Kwok Kuen	Chairman (Independent non-executive Director)
Mr. Hu Baihe	Member (Independent non-executive Director)
Mr. Guo Jingbin	Member (Independent non-executive Director)

The principal responsibilities of the AC is to assist the Board in maintaining a high standard of corporate governance, particularly by providing an independent review of the effectiveness of the Company's financial reporting process and material internal controls, including financial, operational, compliance and risk management controls. Other duties within its written terms of reference include:

(a) To monitor the integrity of the half-year, quarterly or other periodic and annual financial statements and review them before submission to the Board for approval for publication;

(b) To review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process in accordance with applicable standards;

(c) To review the internal audit programme, ensure co-ordination between the internal and external auditors, and ensure that the internal audit function is adequately resourced and has appropriate standing within the Group, and to review and monitor its effectiveness; and

(d) To review arrangements which employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters and to ensure that proper arrangements are in place for fair and independent investigation of these matters and for appropriate follow-up action.

During the year under review, the AC held 3 meetings in March, August and November. In the meeting held in March 2017, the Annual Report and Audited Financial Statements for the year ended 31 December 2016 were reviewed together with the external auditors. In the August 2017 meeting, the Interim Financial Report for the 6 months ended 30 June 2017 was reviewed. In the November 2017 meeting, the Unaudited Financial Results for the 9 months ended 30 September 2017 were reviewed. Other financial, internal control, corporate governance and risk management matters of the Group were also discussed in these meetings.

The AC has reviewed the independence of the external auditors, KPMG LLP ("KPMG") as well as objectivity and effectiveness of the audit process. The AC also made recommendations to the Board on the appointment and retention of the external auditors. The AC meets with the external auditors separately without the presence of Management, annually.

(j) Corporate governance functions

The Board is responsible for the corporate governance functions, which include the following duties:

(a) To develop and review the Company's policies and practices on corporate governance;
(b) To review and monitor the training and continuous professional development of Directors and Senior Management;
(c) To review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
(d) To develop, review and monitor the code of conduct applicable to employees and Directors; and
(e) To review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

The Board has discharged the above functions during the year.

Corporate Governance Report

for the year ended 31 December 2017

(k) Auditors' remuneration

The Company's external auditor is KPMG (including any entity that is under common control, ownership or management with KPMG or any entity that a reasonable and informed third party having knowledge of all relevant information would reasonably conclude as part of the audit firm nationally or internationally). The remuneration paid/payable to KPMG in respect of audit services and permissible audit related and non-audit services for the year ended 31 December 2017 amounted to approximately HK$2,616,000 and HK$2,939,000 respectively. The non-audit services of HK$2,939,000 comprised (i) tax related services of approximately HK$1,681,000; (ii) review of financial information relating to business acquisitions of approximately HK$936,000; and (iii) review of compilation financial information and others of approximately HK$322,000.

(l) Accountability

The Directors acknowledge that they are primarily responsible for the preparation of the financial statements which give a true and fair view and that appropriate accounting policies are selected and applied consistently.

To the best knowledge of the Directors, there is no uncertainty relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

(m) Risk management and internal controls

Responsibilities

The Board is responsible for confirming and supervising the management's responsibilities in designing, implementing and monitoring the risk management and internal control systems, and the management is responsible for providing confirmation to the Board on the effectiveness of such system.

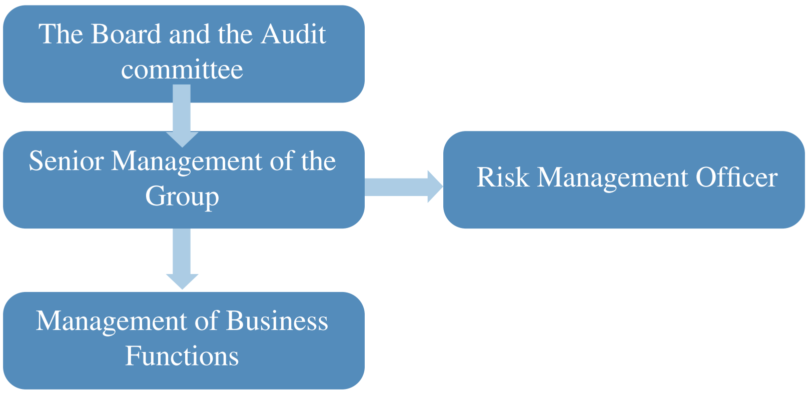
The establishment of a set of robust and efficient risk management and internal control systems is aimed at achieving the Group's strategic objectives and protecting Shareholders' investment and the Group's assets. Such system is designed for managing rather than eliminating the risks of failure in achieving the strategic objectives and only provides reasonable rather than absolute guarantee for not having material false statement or loss.

Risk management and internal control systems

The Group's risk management organisational structure is a 3-tier framework, comprising of the Board and the Audit Committee, senior management of the Group and management of business functions. This structure aims at facilitating the risk management in each aspect of the Group's businesses and constantly improving its internal control system. Details of the structure are set out as follows:

Corporate Governance Report
for the year ended 31 December 2017

Risk Management Structure



Roles performed by parties at all levels within the risk management structure are set out below:

Role	Major Responsibilities
The Board and the Audit Committee	• Reviewing plans for the establishment and responsibilities of the risk management structure and reviewing the basic policies for risk management • Reviewing the *Risk Management Operation Manual* and its amendment • Reviewing material risk assessment report and various risk management reports • Responsible for the assessment of various material risks faced by the Group and its current risk management status • Reviewing risk management measures, and rectifying and dealing with decisions or actions made or taken by relevant organisations or individuals beyond the risk management system • Dealing with other important matters involving risk management
Senior Management of the Group	• Reporting to the Audit Committee on the effectiveness of risk assessment work • Organising and promoting the establishment of the risk management system at the intragroup level • Organising and coordinating the subsidiaries to engage in identifying and assessing material risks at the intragroup level along with overview analyses over information collected from the above engagement to prepare assessment reports on material intragroup risks and various risk management reports, and reporting such information to the Audit Committee • Managing risks at the intragroup level, and studying and proposing relevant measures and proposals for the management of material risks at the intragroup level • Overseeing the cultivation of the Group's general risk management culture

Corporate Governance Report

for the year ended 31 December 2017

Roles performed by parties at all levels within the risk management structure are set out below: (cont'd)

Role	Major Responsibilities
Risk Management Officer	• Coordinating and arranging matters related to risk assessment and countermeasures • Promoting risk management and risk assessment • Overseeing the establishment and implementation of risk mitigation plans and countermeasures of each business department
Management of Business Functions	• Taking ultimate responsibility for risk assessment of their own business function • Ensuring that the business function engages in risk assessment in compliance with the risk assessment manual prepared by the Group • Reviewing and approving risk assessment results • Reviewing countermeasures for risk exposure, and ensuring effective risk management of the Company • Monitoring the major risks faced by the Company and the effectiveness of relevant risk management measures • Allocating resources to risk assessment projects (including fund and personnel)

The Group has prepared the *Risk Management Operation Manual*, which defines its risk management structure, respective responsibilities and processes. In each financial year, the Group organises the management of each business function to implement their respective risk management processes to identify and analyze major risks faced by it and rank relevant risks in terms of their level of impact and chance of occurrence for the purpose of assessing existing risk management measures and determining whether further measures are required to control risks within acceptable level.

The Audit Committee reviews the effectiveness and adequacy of the system on an annual basis. The Group conducts internal reviews on the design and implementation effectiveness of business processes or controls on a systematic rotation basis and submits reports on significant findings in internal control to the Audit Committee on an annual basis. For the identified defects in internal control, the Group conducts further discussion and rectification within the management or reports to the Board for further discussion and rectification based on their significance and level of impact.

The Group has an independent internal audit function, which reports to the Audit Committee regularly. The internal audit function is responsible for reviewing the Group's risk management and internal control measures, and overseeing the management and control of each of the Group's businesses and processes independently, through which the internal audit function assists the Board in promoting the continuous improvement of the Group's risk management and internal control systems. Furthermore, overseas subsidiaries also conduct self-assessment on their internal control on key business processes on an annual basis to assess the effectiveness of their respective internal control system and report to the internal audit function.

The Group has clarified the definition of insider information and specified the procedures for the handling and dissemination of insider information. The Group discloses information to the public generally and non-exclusively through channels including financial reports, announcements and its website, with a view to achieving fair and timely disclosure of information. The Group strictly prohibits unauthorised use of confidential or insider information.

Review on the risk management and internal control systems in 2017

The Board is responsible for reviewing the effectiveness of the risk management and internal control systems for the year. The review covers all material aspects of control, including financial, operational and compliance control. During the year under review, the Board has finished reviewing the Group's risk management and internal control systems through the Audit Committee. The review also covers the adequacy of resources, staff qualifications and experiences, training programmes for staff and relevant budgets for the Group's accounting, internal audit and financial reporting functions. The Board is satisfied with the results of the review and believes that the current risk management and internal controls are effective and adequate.

Corporate Governance Report
for the year ended 31 December 2017

(n) Company secretary

Ms. Leung Wing Han Sharon ("Ms. Leung") is a company secretary of the Company, who is a vice president of SW Corporate Services Group Limited and her primary contact person at the Company is Ms. Loretta Yip, the chief financial officer of the Company.

Ms. Leung confirmed that she has taken no less than 15 hours of relevant professional training during the year under review.

(o) Shareholders' rights

The Company encourages two-way communications with both institutional and private investors. Extensive information about the Company's activities is provided in its annual reports and interim reports, which are sent to Shareholders. Shareholders should direct their questions about their shareholdings to the Company's Share Registrar and may at any time make enquiry to the Board or make request for the Company's information to the extent such information is publicly available at the Company's principal office and/or branch office in Hong Kong.

(i) Procedure for shareholders to convene an extraordinary general meeting

In accordance with Article 72 of the Company's Articles of Association, general meetings may be convened on the written requisition of any two members of the Company deposited at the registered office specifying the objects of the meeting and signed by the requisitionists and such meeting shall be held two (2) months after the deposit of such requisition, and if the Directors do not within twenty-one days from the date of deposit of the requisition proceed duly to convene the meeting, the requisitionists themselves may convene the general meeting in the same manner, as nearly as possible, as that in which meetings may be convened by the Directors, and all reasonable expenses incurred by the requisitionists as a result of the failure of the Directors shall be reimbursed to them by the Company.

(ii) Procedure for shareholders to put forward proposals at shareholders' meetings

There are no provisions in the Company's Articles of Association or the Companies Law of the Cayman Islands for Shareholders to put forward new resolutions at general meetings. Shareholders who wish to put forward a new resolution may request the Company to convene a general meeting in accordance with the procedures set out in the above paragraph heading "Procedures for Shareholders to Convene an Extraordinary General Meeting".

(iii) Procedure for shareholders to nominate a person to stand for election as a Director

If a Shareholder wishes to nominate a person to stand for election as a Director at a general meeting, the relevant documents must be validly served on the principal office of the Company within the requisite period of time. The full details of the procedures for shareholders to propose a person for election as a director were posted on 30 March 2012 on the website of the Hong Kong Stock Exchange and the Company's third-party hosted website at http://www.merrillifn.com/IR/company.php?ref=13.

(p) Investor relations

There is no change to the Company's constitutional documents during the year under review.

Directors' Report
for the year ended 31 December 2017

The Directors submit herewith their annual report together with the audited financial statements for the year ended 31 December 2017.

PRINCIPAL PLACE OF BUSINESS

China Tian Yuan Healthcare Group Limited (the "Company") is a company incorporated in the Cayman Islands and domiciled in Hong Kong. Its registered office is at P.O. Box 309, Grand Cayman, Cayman Islands, British West Indies and the principal place of business in Hong Kong is at Room Nos. 1120-1126, 11/F., Sun Hung Kai Centre, 30 Harbour Road, Wanchai, Hong Kong.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activities of the Company comprise those of investment holding.

The principal activities and other particulars of the subsidiaries are set out in note 29 to the financial statements.

The analysis of the principal activities and geographical locations of the operations of the Company and its subsidiaries (the "Group") during the financial year are set out in note 11 to the financial statements.

Further discussions and analysis of these activities as required by Schedule 5 to the Hong Kong Companies Ordinance, including a discussion of the principal risks and uncertainties facing the Group and an indication of likely future developments in the Group's business, can be found in the Business Review section set out on pages 9 to 12 of the annual report. This discussion forms part of this directors' report.

MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's sales of goods/rendering of services and purchases/service rendered attributable to the major customers and suppliers respectively during the financial year is as follows:

	Percentage of the Group's total	
	Sales of goods/ Rendering of services	**Purchases/ Service rendered**
The largest customer	27%	
Five largest customers in aggregate	45%	
The largest supplier		28%
Five largest suppliers in aggregate		68%

Saved as disclosed herein, at no time during the year have the Directors, their associates or any shareholder of the Company (which to the knowledge of the Directors own more than 5% of the number of issued shares of the Company) had any interest in these major customers and suppliers.

RECOMMENDED DIVIDEND

The Directors of the Company do not recommend the payment of any final dividend for the year ended 31 December 2017 (2016: nil). No interim dividend was paid for the year ended 31 December 2017 (2016: nil).

CHANGE OF COMPANY'S NAME

By a special resolution passed on 9 November 2017, the name of the Company was changed from City e-Solutions Limited to China Tian Yuan Healthcare Group Limited and the Company adopted the Chinese name 中國天元醫療集團有限公司 as part of its legal name.

Directors' Report
for the year ended 31 December 2017

CHARITABLE DONATIONS

The Group did not make any charitable donations during the year (2016: nil).

SHARE CAPITAL

Details of the movement in Share Capital of the Company during the year are set out in note 27 to the financial statement.

Shares were issued during the year as part of the consideration for the acquisition of a subsidiary. Details about the issue of shares are also set out in note 27 to the financial statements.

DEBENTURE

The Company did not issue any debenture during the year.

RESERVES

Details of the movements in the reserves of the Group during the year are shown in the consolidated statement of changes in equity on pages 45 to 46.

DISTRIBUTABLE RESERVES

Details of the movements in the distributable reserves of the Group during the year are shown in the consolidated statement of changes in equity on pages 45 to 46.

SHARE AWARD SCHEME

On 9 December 2016, the Company adopted a share award scheme (the "Share Award Scheme"), pursuant to which the Board may propose or determine the grant of the Company's shares (the "Award Shares") to any Directors, employees or third party service providers of the Group (the "Beneficiaries") as incentives and rewards so as (i) to provide the Beneficiaries with an opportunity to acquire a proprietary interest in the Company; (ii) to encourage and retain the Beneficiaries to work with the Group; and (iii) to provide additional incentive for the Beneficiaries to achieve performance goals, with a view to achieving the objectives of increasing the value of the Company and aligning the interests of the Beneficiaries directly to the shareholders of the Company through ownership of shares subject to such conditions as the Board may deem appropriate at its discretion.

DETERMINATION OF PROPOSED BENEFICIARIES

The grant of Award Shares under the Share Award Scheme to any eligible person will be proposed by the Remuneration Committee and approved by the Board. The Board shall:

(i) consider whether to accept the proposal from the Remuneration Committee (with or without amendments); and

(ii) if the proposal is accepted (with or without amendments), select from among the proposed eligible person those persons who will be entitled to receive Award Shares under the Share Award Scheme and determine the number of Award Shares that each proposed beneficiary will be entitled to be granted.

The selection of proposed beneficiaries and determination of the number of Award Shares to which each proposed Beneficiary will be entitled will be made pursuant to a resolution of the Remuneration Committee.

Directors' Report

for the year ended 31 December 2017

GRANT OF AWARD SHARES

The Company will notify each relevant proposed Beneficiary of his entitlement to Award Shares by way of a notice of award. The notice of award will specify the terms and conditions of the award and the Share Award Scheme such as the number of Award Shares entitled, the vesting criteria and conditions, the vesting date and such other details as the Board may consider necessary.

Each grant of Award Shares under the Share Award Scheme to any connected person shall be subject to the prior approval of the independent non-executive Directors (excluding any independent non-executive Director who is a proposed Beneficiary). If any proposed grant of Award Shares to any connected person in relation to the Company or any of its subsidiaries under the Share Award Scheme would result in the total number of Award Shares being issued to such connected person during the 12-month period immediately preceding the date of such proposed grant exceeding 1% of the total issued share capital of the Company as at the date of such proposed grant, then such proposed grant must be approved by the shareholders of the Company in a general meeting at which such connected person and his associates shall abstain from voting. The Company will comply with the relevant requirements under Chapter 14A of the Listing Rules for any grant and issue of Shares to connected persons of the Company.

MAXIMUM NUMBER OF AWARD SHARE GRANTS

The aggregate number of Award Shares, whether they are new Shares to be allotted and issued by the Company or existing Shares to be purchased on-market by the Trustee, underlying all grants made pursuant to the Share Award Scheme shall not exceed in total 10% of the Company's issued share capital as at the adoption date.

RIGHTS ATTACHED TO THE AWARD SHARES

Any Award Shares transferred to a Beneficiary pursuant to the Share Award Scheme will be subject to all the provisions of the Articles of the Company and will form a single class with the fully paid Shares in issue on the relevant date.

SHARES AWARDED

The Board has resolved to award an aggregate of 37,862,500 shares ("Connected Award Shares") to Mr. Jiang Yulin, the Chairman of the Board and an Executive Director, on 9 December 2016. The issue and allotment of new shares to Mr. Jiang has been approved by the independent shareholders of the Company at its extraordinary general meeting ("EGM") on 29 March 2018.

37,862,500 shares will be issued and allotted by the Company to Mr. Jiang by six batches (subject to fulfilment of the vesting conditions):

Batch	Date	Number of shares to be vested
1	30 September 2018	3,786,250
2	31 March 2019	3,786,250
3	31 March 2020	7,572,500
4	31 March 2021	7,572,500
5	31 March 2022	7,572,500
6	31 March 2023	7,572,500

Directors' Report
for the year ended 31 December 2017

VESTING CONDITIONS

(i) the approval by the Independent Shareholders at the EGM in respect of the issue and allotment of the Connected Award Shares pursuant to the specific mandate obtained at the EGM;

(ii) the granting of the listing and dealing approval by the Hong Kong Stock Exchange in respect of the Connected Award Shares;

(iii) the achievement of (i) a growth rate of not less than 10% on the average closing market capitalization of the Company (the "Average Market Capitalization") throughout the first half of year 2018 based on the 30-days average closing market capitalization of the Company immediately preceding the date of adoption of the Share Award Scheme (the "Benchmark Market Capitalization"); (ii) a growth rate of not less than 15% on the average closing market capitalization of the Company throughout the second half of year 2018 based on the Benchmark Market Capitalization; and (iii) expected return on equity (the "Expected ROE") by the Company in each of the second to fifth year as recommended by the Remuneration Committee and approved by the Board from time to time, taking into account the economic environment and other appropriate factors as it thinks fit. The Remuneration Committee may also make recommendations on any adjustments for the forthcoming year for the Board's approval, taking into account the above factors. In any event, the Expected ROE will not be less than 12% (the "Minimum Expected ROE").

In determining whether the growth rate of the average closing market capitalization of the Company (the "Average Cap. Growth") is met, the Company will calculate the Average Cap. Growth for each of the first half and second half of year 2018 based on the following formula:

For the first half of year 2018:

$$\text{Increase in market capitalization of the Company} = \frac{\text{Average Market Capitalization}}{\text{Benchmark Market Capitalization}} - 1 \times 100\%$$

Where,

(a) Average Market Capitalization shall be calculated by dividing the sum of market capitalization of the Company for the period commencing on 1 January 2018 and ending on 30 June 2018 (both dates inclusive) (the "2018 First Six-Month Period") over the total number of trading days for that period; and

(b) Benchmark Market Capitalization shall be calculated by the sum of market capitalization of the Company for the thirty (30) trading days immediately prior to the date on which the Share Award Scheme is adopted by the Board over the total number of trading days for that period.

The first batch of the Connected Award Shares with the vesting date on 30 September 2018 shall vest if the increase in market capitalization of the Company for the 2018 First Six-Month Period is not less than 10%.

Directors' Report

for the year ended 31 December 2017

VESTING CONDITIONS (cont'd)

For the second half of year 2018:

$$\text{Increase in market capitalization of the Company} = \frac{\text{Average Market Capitalization}}{\text{Benchmark Market Capitalization}} - 1 \times 100\%$$

Where,

(a) Average Market Capitalization shall be calculated by dividing the sum of market capitalization of the Company for the period commencing on 1 July 2018 and ending on 31 December 2018 (both dates inclusive) (the "2018 Second Six-Month Period") over the total number of trading days for that period; and

(b) Benchmark Market Capitalization shall be calculated by the sum of market capitalization of the Company for the thirty (30) trading days immediately prior to the date on which the Share Award Scheme is adopted by the Board over the total number of trading days for that period.

The second batch of the Connected Award Shares with the vesting date on 31 March 2019 shall vest if the increase in market capitalization of the Company for the 2018 Second Six-Month Period is not less than 15%.

In determining whether the Expected ROE is met, the Company will calculate the ROE of each year based on the following formula:

$$\text{Expected ROE} = \frac{\text{Net Income}}{\text{Shareholders' Equity}}$$

Where,

(a) Net Income shall be the net profit before taxation, interest, amortization and extraordinary item(s) of non-recurring in nature as shown in the latest published audited consolidated financial results of the Group before the relevant vesting date; and

(b) Shareholders' Equity shall be the total equity attributable to equity shareholders of the Company as shown in the audited consolidated financial results of the Group published in the year preceding the relevant vesting date.

The remaining batches of the Connected Award Shares with the vesting dates on 31 March 2020, 2021, 2022 and 2023 respectively shall vest if the ROE for the respective year is not less than 12%.

Any change in the above vesting conditions (including the Minimum Expected ROE) will be subject to the approval by the Independent Shareholders.

SHARE OPTION SCHEME

The Company does not have any share option scheme.

DIRECTORS

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

Executive Directors
Mr. Jiang Yulin, Chairman
Ms. Zhang Xian
Mr. Lawrence Yip Wai Lam (retired on 30 June 2017)

Directors' Report
for the year ended 31 December 2017

DIRECTORS (cont'd)

Independent non-executive Directors
Mr. Hu Baihe
Mr. Yuen Kwok Kuen
Mr. Guo Jingbin

In accordance with Article 116 of the Articles of Association of the Company, one third of the present Directors will retire from office by rotation at the forthcoming Annual General Meeting. Mr. Jiang Yulin and Ms. Zhang Xian shall retire from office by rotation at the forthcoming Annual General Meeting and, being eligible, have offered themselves for re-election.

PROFILE ON DIRECTORS AND SENIOR MANAGEMENT

Directors

Mr. Jiang Yulin, *aged 59*
Chairman and Executive Director

Mr. Jiang Yulin ("Mr. Jiang") was appointed as an executive Director of the Company with effect from 19 August 2016. On 9 September 2016, Mr. Jiang was appointed as the Chairman of the Board and the member of the Nomination Committee of the Company.

Mr. Jiang holds a doctorate degree in Economics from Wuhan University and is a senior economist and registered accountant. Mr. Jiang has published several journals and certain books in relation to the banking industry and risk prevention. Mr. Jiang has over 30 years of banking experience and has extensive experience in financing, investment and management.

Mr. Jiang had worked in Industrial and Commercial Bank of China (Asia) Limited ("ICBC") for more than 30 years. From 1985 to 1997, Mr. Jiang had been appointed as Deputy President of ICBC's bank branches of county-level cities and prefecture-level cities. In September 1997, Mr. Jiang had been appointed as President of ICBC's prefecture-level cities bank branch in Wuhu. In 2000, Mr. Jiang had been appointed as Deputy President of ICBC's provincial bank branch in Anhui. Since 2000, Mr. Jiang had been appointed as Deputy President of ICBC's provincial bank branches. At the same time, he also served as an independent supervisor of Maanshan Iron & Steel Company Limited, one of the largest iron and steel producers and marketers in the People's Republic of China, which is listed on the Shanghai Stock Exchange (Stock Code: 600808) and the Hong Kong Stock Exchange (Stock Code: 323), from 2002 until 2005. In 2006, Mr. Jiang was promoted to President of ICBC's provincial bank branch in Yunnan. Since 2011, Mr. Jiang had been an editorial committee member of ICBC's monthly financial magazine "China Urban Finance", he is responsible for the content review and publication, the magazine targeted to bankers, securities professionals, executives in commerce and industrial sectors as well as research team of financial institutions, content of which include China and overseas government policy report in economics and finance, economy and financial, progress of hot industries, latest moves of global banks and challenges they faced etc. In 2010, Mr. Jiang was appointed as the General Manager of the credit business department of ICBC and subsequently, assumed the role as General Manager of the information management department of the ICBC in 2014. Since 2015, Mr. Jiang had been the board chairman of ICBC Financial Leasing Co., Ltd.; a wholly-owned subsidiary of ICBC, and held concurrent posts as the board chairman of ICBC (Moscow) Limited; a wholly-owned subsidiary of ICBC, and a non-executive director, chairman of risk management committee and a member of the audit committee of ICBC. In 2016, Mr. Jiang resigned from ICBC and joined the Company.

Mr. Jiang did not hold any other directorships in listed public companies in the last three years.

Directors' Report

for the year ended 31 December 2017

PROFILE ON DIRECTORS AND SENIOR MANAGEMENT (cont'd)

Directors (cont'd)

Ms. Zhang Xian, *aged 33*
Executive Director and Chief Executive Officer

Ms. Zhang Xian ("Ms. Zhang") was appointed as an executive Director of the Company with effect from 19 August 2016. On 9 September 2016, Ms. Zhang was appointed as the member of the Remuneration Committee of the Company.

Ms. Zhang holds a Master's degree in Economics from Beijing University. Ms. Zhang worked in the investment banking and private equity investment industries for 8 years with a wealth of experience in domestic and overseas transaction execution. She has worked for China International Capital Corporation for more than 4 years, mainly responsible for mergers and acquisitions.

Ms. Zhang did not hold any other directorships in listed public companies in the last three years.

Mr. Hu Baihe, *aged 55*
Independent non-executive Director

Mr. Hu Baihe ("Mr. Hu") was appointed as an independent non-executive Director of the Company with effect from 19 August 2016. On 9 September 2016, Mr. Hu was appointed as the Chairman of the Nomination Committee and members of the Audit Committee and Remuneration Committee of the Company.

Mr. Hu graduated from Jiangxi University of Finance and Economics. He is a senior accountant, certified public accountant, certified public valuer and certified tax agent in the PRC. He has extensive experience in the finance field. Mr. Hu is currently the general manager of Peking Certified Public Accountants. Before he joined Peking Certified Public Accountants in 1993, he had over 7 years of working experience with the Ministry of Finance of the PRC. Mr. Hu is an independent non-executive director of China Ocean Industry Group Limited, which is listed on the Hong Kong Stock Exchange (Stock Code: 651).

Saved as disclosed herein, Mr. Hu did not hold any other directorships in listed public companies in the last three years.

Mr. Yuen Kwok Kuen, *aged 44*
Independent non-executive Director

Mr. Yuen Kwok Kuen ("Mr. Yuen") was appointed as an independent non-executive Director of the Company with effect from 19 August 2016. On 9 September 2016, Mr. Yuen was appointed as the Chairman of the Audit Committee and members of the Nomination Committee and Remuneration Committee of the Company.

Mr. Yuen obtained the Bachelor of Business from Monash University (Australia) in 1998 and is a certified public accountant of the Hong Kong Institute of Certified Public Accountants and the CPA Australia respectively. Mr. Yuen has 17 years of experience in audit, tax, initial public offering, mergers and acquisitions and corporate services. Mr. Yuen is the company secretary of China Household Holdings Limited, which is listed on the Hong Kong Stock Exchange (Stock Code: 692).

Saved as disclosed herein, Mr. Yuen did not hold any other directorships in listed public companies in the last three years.

Directors' Report
for the year ended 31 December 2017

PROFILE ON DIRECTORS AND SENIOR MANAGEMENT (cont'd)

Directors (cont'd)

Mr. Guo Jingbin, *aged 60*
Independent non-executive Director

Mr. Guo Jiangbin ("Mr. Guo") was appointed as an independent non-executive Director of the Company with effect from 19 August 2016. On 9 September 2016, Mr. Guo was appointed as the Chairman of the Remuneration Committee and members of the Nomination Committee and Audit Committee of the Company.

Mr. Guo graduated from Shanghai Construction Materials College in 1980. In 1998, Mr. Guo received a Master of Business Administration degree from the Post-graduate College of the Social Science Institute of China.

Mr. Guo is a director of Anhui Conch Group Company Limited. Mr. Guo has been an executive director of Anhui Conch Cement Company Limited, which is listed on the Shanghai Stock Exchange (Stock Code: 600585) and the Hong Kong Stock Exchange (Stock Code: 914), from September 1997 to June 2014 and was re-designated as a non-executive director of Anhui Conch Cement Company Limited until May 2016. Mr. Guo has been a non-executive director and chairman of China Conch Venture Holdings Limited, which is listed on the Hong Kong Stock Exchange (Stock Code: 586), from June 2013 to June 2014. Since then, Mr. Guo has been the executive director and the chairman of China Conch Venture Holdings Limited. He is primarily responsible for overall strategic development of China Conch Venture Holdings Limited. Mr. Guo is also an independent non-executive director of China Logistics Property Holdings Co., Ltd., which is listed on the Hong Kong Stock Exchange (Stock Code: 1589). Mr. Guo has over 30 years' experience in the building materials industry and in capital markets, particularly specializing in corporate strategic planning, marketing planning and general and administration management.

Saved as disclosed herein, Mr. Guo did not hold any other directorships in listed public companies in the last three years.

Senior Management

Mr. Rodrigo Jimenez, *aged 51*
Chief Executive Officer, Sceptre Hospitality Resources, LLC ("SHR")

Mr. Jimenez was appointed as Chief Executive Officer of SHR on 23 July 2015.

Mr. Jimenez has a long history in the hospitality technology space, starting with Webvertising, the company that created the iHotelier Central Reservations System. In 2004, he co-founded Whiteboard Labs, which produced the Windsurfer CRS in 2009. Since then, in 2012, Whiteboard Labs merged with Sceptre to create SHR and he has been successfully leading SHR through great growth since its inception.

Prior to his time in the technology sector, Mr. Jimenez spent 10 years in the banking industry where he advised a large number of companies in a wide-range of industries and countries. During this time, he was a Vice President in the Latin America corporate banking group of Bank of America and also served as Vice President and Client Advisor in the International Department of the Chase Manhattan Bank in Houston. In that capacity, he advised subsidiaries of multinational companies in corporate finance and investment banking matters.

Mr. Jimenez is a graduate of the Financial Management Program at Stanford University and was a participant in the 1999 Focused Financial Management Series at Harvard Business School. He holds a B.B.A. in Marketing and an M.B.A. in International Business & Finance from the University of Houston.

Directors' Report

for the year ended 31 December 2017

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

As at 31 December 2017, the interests of the Directors and chief executives of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code were as follows:

Name of Director	Capacity/Nature of Interest	Number of Shares Held	Percentage Holding in the Company
Jiang Yulin	Beneficial owner/Beneficial interest	37,862,500	9.49%

The Board has resolved to award an aggregate of 37,862,500 shares to Mr. Jiang Yulin, the Chairman of the Board and an executive Director, on 9 December 2016. The aforesaid award to Mr. Jiang Yulin was approved at the Extraordinary General Meeting held on 29 March 2018. The shares will be issued and allotted to Mr. Jiang Yulin by six batches (subject to the fulfilment of the vesting conditions as discussed on pages 25 to 26 of the annual report), with the first batch vesting on 30 September 2018.

Save as disclosed herein, as at 31 December 2017, none of the Directors and the Chief Executives of the Company or their associates were interested or had any short position in any shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded under Section 352 of the SFO, or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

As at 31 December 2017, so far is known to any Directors or the chief executives of the Company, the following persons (excluding the Directors and the chief executives of the Company) were interested in 5% or more of the issued share capital of the Company as recorded in the register required to be kept under Section 336 of the SFO:

Name of Shareholder	Capacity/Nature of Interest	Number of Shares Held	Percentage Holding in the Company
Dong Jufeng (Note)	Interest of spouse/ Family interest	266,069,294	66.69%
Jia Tianjiang (Note)	Interest of controlled corporation/ Corporate interest	266,069,294	66.69%
China Tian Yuan Manganese Limited (Note)	Beneficial owner/ Beneficial interest	266,069,294	66.69%
Ningxia Tianyuan Manganese Industry Co., Ltd. (Note)	Interest of controlled corporation/ Corporate interest	266,069,294	66.69%

Note: China Tian Yuan Manganese Limited is a wholly owned subsidiary of Ningxia Tianyuan Manganese Industry Co., Ltd., a corporation controlled by Mr. Jia Tianjiang. By virtue of the SFO, Ningxia Tianyuan Manganese Industry Co., Ltd., Jia Tianjiang and his spouse, Ms. Dong Jufeng, are deemed to be interested in the 266,069,294 shares of the Company held by China Tian Yuan Manganese Limited.

Save as stated above, no person (excluding the Directors and the Chief Executives of the Company) was interested in or had a short position in the shares or underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO as at 31 December 2017.

Directors' Report
for the year ended 31 December 2017

INDEMNITY OF DIRECTORS

Pursuant to the Articles of Association, every Director or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities which he/she may sustain or incur in or about the execution of the duties of his/her office or otherwise in relation thereto, and no Director or other officer shall be liable for any loss, damages or misfortune which may happen to or be incurred by the Company in the execution of the duties of his/her office or in relation thereto. The Company has arranged appropriate Directors' and officers' liability insurance coverage for the Directors and officers of the Company during the year.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as disclosed herein, no transaction, arrangement or contract of significance to which the Company, or any of its holding company, subsidiaries or fellow subsidiaries was a party, and in which a Director of the Company had a material interest, subsisted at the end of the year or at any time during the year.

ARRANGEMENTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed herein, at no time during the year was the Company or any of its subsidiaries, fellow subsidiaries or holding company a party to any arrangements to enable any Director of the Company to acquire benefits by means of acquisition of shares in or debentures of the Company or any other body corporate.

CONTROLLING SHAREHOLDERS' INTEREST

Save as disclosed herein, apart from transactions carried out in the normal course of business, there were no contracts of significance between the Company or any of its subsidiaries and a controlling Shareholder or any of its subsidiaries or any contracts of any significance for the provision of services to the Company or any of its subsidiaries by a controlling Shareholder or any of its subsidiaries.

CONTINUING CONNECTED TRANSACTIONS

Provision of Procurement, Marketing and Management Services and Trademark Licensing

On 31 August 2017, the last tranche of the subscription and acquisition of approximately 51% of the entire issued share capital of PRIP Communications Limited ("PRIP") was completed. Accordingly, PRIP is owned as to approximately 51% and 45.82% by the Company and Dr. Sang Woo Lee, respectively. Thus, as at 31 August 2017, PRIP has become a subsidiary of the Company and DIAM Holdings Co., Ltd. ("DIAM"), the Korean subsidiary of PRIP, has become an indirect subsidiary of the Company. As such, Dr. Sang Woo Lee and DA Plastic Surgery Clinic (a Korean clinic owned by Dr. Sang Woo Lee) have become connected persons at the subsidiary level of the Company. The transactions between DA Plastic Surgery Clinic and PRIP and DIAM subsequently constitute continuing connected transactions.

Directors' Report

for the year ended 31 December 2017

CONTINUING CONNECTED TRANSACTIONS (cont'd)

Provision of Procurement, Marketing and Management Services and Trademark Licensing (cont'd)

Procurement, Marketing and Management Services and licensing of trademarks are provided by the Group to DA Plastic Surgery Clinic. The terms of the transactions were determined after taking various factors into account and after arm's length negotiation between the parties. Details of the transactions were set out in the press announcement dated 4 September 2017. The cap amount for Procurement, Marketing and Management Services and Trademark Licensing is set out below:

	Procurement, Marketing and Management Services US$'000	Aggregate Monthly Royalty US$'000	Total US$'000
1 September to 31 December 2017	1,034	382	1,416
Year ending 31 December 2018	3,649	1,249	4,898
Year ending 31 December 2019	4,382	1,249	5,631
1 January to 28 May 2020	2,198	624	2,822

The total revenue generated from the provision of Procurement, Marketing and Management Services and Trademark Licensing during the period from 1 September 2017 to 31 December 2017 amounted to US$510,091 (2016: nil) and US$346,860 (2016: nil) respectively.

All the independent non-executive Directors have reviewed the Continuing Connected Transactions in the 2017 financial year and confirmed that those transactions had been entered into:

(i) in the ordinary and usual course of business of the Group;

(ii) either on normal commercial terms or, better; and

(iii) according to the agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The auditors of the Company, KPMG LLP, have confirmed in a letter to the Board that nothing has come to their attention that caused them to believe that the Continuing Connected Transactions in the 2017 financial year:

(i) had not been approved by the Board of the Company;

(ii) were not, in all material respects, in accordance with the pricing policies of the Group if the transactions involve the provision of goods or services by the Group;

(iii) were not entered into in all material respects in accordance with the relevant agreement governing such transactions; and

(iv) had exceeded the cap amount of US$1.416 million disclosed in the announcement of the Company dated 4 September 2017.

Directors' Report
for the year ended 31 December 2017

Other Related Party Transactions

Other material related party transactions are set out in note 33 to the financial statements, which either fall under the definition of "Continuing Connected Transactions" in Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and are exempted under the Listing Rules or does not fall into the definition of "connected transaction" or "continuing connected transaction". The Company has complied with the disclosure requirements under Chapter 14A of the Listing Rules in respect of its connected transactions or continuing connected transactions.

SERVICE CONTRACTS OF DIRECTORS

Each executive Director has entered into a service agreement with the Company for a specific term of 2 years, subject to retirement by rotation according to the Articles of Association of the Company.

Each independent non-executive Director has entered into an appointment letter with the Company for a specific term of 2 years, subject to retirement by rotation according to the Articles of Association of the Company.

None of the Directors has a service contract with the Company or its subsidiaries which is not determinable by the Company 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 Company were entered into or existed during the year.

PRE-EMPTIVE RIGHTS

Under present Cayman Islands laws and the Articles of Association of the Company, no pre-emptive rights are imposed which would oblige the Company to offer new shares on a pro-rata basis to existing shareholders.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

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

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of its Directors as at the date of this annual report, the Directors confirm that the Company has maintained the amount of public float as required under the Listing Rules.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

As at the date of this annual report, none of the Directors or their respective close associates had interests in businesses which compete or are likely to compete either directly or indirectly with the businesses of the Group as are required to be disclosed pursuant to the Listing Rules.

Directors' Report

for the year ended 31 December 2017

EQUITY-LINKED AGREEMENT

Apart from the Share Award Scheme adopted by the Company as set forth in note 27 to the financial statements, the Company has not entered into any equity-linked agreement during the year or there was not any subsisting equity-linked agreement entered into by the Company at the end of the reporting year.

CONFIRMATION OF INDEPENDENCE

The Company has received from each of the independent non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all the independent non-executive Directors to be independent.

AUDITORS

KPMG LLP, the auditors of the Company, will retire and, being eligible, offer themselves for re-appointment at the forthcoming Annual General Meeting of the Company. A resolution for the re-appointment of KPMG LLP as auditors of the Company is to be proposed at the forthcoming Annual General Meeting of the Company.

There is no change of auditor in the preceding three years.

On behalf of the Board

JIANG YULIN
Chairman

25 April 2018

Independent Auditors' Report

to the members of China Tian Yuan Healthcare Group Limited
(incorporated in Cayman Islands with limited liability)
for the year ended 31 December 2017

OPINION

We have audited the consolidated financial statements of China Tian Yuan Healthcare Group Limited ("the Company") and its subsidiaries ("the Group") set out on pages 41 to 127, which comprise the consolidated statement of financial position as at 31 December 2017, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). 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") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in Cayman Islands, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

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

Independent Auditors' Report

to the members of China Tian Yuan Healthcare Group Limited
(incorporated in Cayman Islands with limited liability)
for the year ended 31 December 2017

Goodwill Impairment Assessment

Refer to note 14 to the consolidated financial statements for goodwill impairment assessment and note 1(i) to the consolidated financial statements for the accounting policies on goodwill.

The Key Audit Matter

The Group has recognised goodwill arising from business acquisitions. The goodwill is subject to annual impairment assessment which involves the estimation of the recoverable amount. The Group has engaged external valuers to estimate the recoverable amount. The estimation is complex and is dependent on assumptions about the future. Specifically, significant judgement is required in relation to the appropriate use of discount rates, capitalisation rates, terminal values and the resulting forecast cash flows in determining the value in use and the multipliers used under the guideline public company method. Therefore, this is one of the key judgemental areas that we have focused in our audit.

How the matter was addressed in our audit

Our audit procedures for the assessment of goodwill impairment included the following:

- assessed the competency, professional qualifications and objectivity of the independent valuers;
- evaluated the valuation methodology used by the valuers, checked for compliance with the relevant accounting standards and alignment to market practice;
- challenged the key assumptions used in determining the recoverable amounts of the cash generating units. This included a comparison of the assumptions with externally derived data including external hospitality industry reports. We also considered the historical accuracy of directors' estimates on the assumptions;
- for valuation that involves determination of the exit and revenue multipliers with reference to the performance of comparable companies, we considered the appropriateness of the multipliers used and the comparable companies selected; and
- considered the appropriateness of the disclosures in the consolidated financial statements about the methodologies used and the key assumptions applied.

Independent Auditors' Report

to the members of China Tian Yuan Healthcare Group Limited
(incorporated in Cayman Islands with limited liability)
for the year ended 31 December 2017

Accounting for business acquisitions

Refer to note 30 to the consolidated financial statements on the accounting for the acquisition of subsidiaries and note 1(d) to the consolidated financial statements for the accounting policies on business combinations.

The Key Audit Matter	How the matter was addressed in our audit
During the year, the Group completed two acquisitions resulting in goodwill recognised at the date of acquisition totalling HK$88 million, which represented the excess of the consideration paid over the Group's share of the fair value of the identifiable net assets, including the intangible assets, of the acquired businesses. The fair values of the identifiable assets and liabilities acquired in these transactions were assessed by the directors, where in one of these acquisitions, the assessment was based on an independent valuation undertaken by a firm of external valuers. This involved significant judgement and estimates made by the directors, particularly in relation to the projection of future performance of the businesses acquired. The fair values of the identifiable assets and liabilities arising from these acquisitions and the related purchase price allocations were determined provisionally as at 31 December 2017 and are subject to adjustment.	Our audit procedures to assess the accounting for the acquisition of subsidiaries included the following: • reviewed the sale and purchase agreements and evaluated management's accounting treatment for the acquisitions with reference to the terms set out in the sale and purchase agreements; • obtained and reviewed the valuation assessment prepared by the external valuers engaged by the directors and on which the directors' assessment of the provisional fair values of the assets and liabilities acquired was based; • assessed the external valuers' qualifications, experience and expertise in the assets being valued and considered their objectivity and independence; • discussed with the external valuers on the valuation methodologies adopted in assessing the fair values of the assets and liabilities acquired, including intangible assets, and challenged the assumptions and critical judgements which impacted the valuation by comparing these assumptions and critical judgements with market data, our past experience of similar transactions and the Group's business plan supporting the acquisitions; • evaluated the valuation methodologies adopted by the external valuers with reference to industry standards and the requirements of the prevailing accounting standards; and • assessed the disclosures in the consolidated financial statements in respect of the acquisitions in accordance with the requirements of the prevailing accounting standards.

Independent Auditors' Report

to the members of China Tian Yuan Healthcare Group Limited (incorporated in Cayman Islands with limited liability) for the year ended 31 December 2017

Recoverability of outstanding loans arising from money lending and related business activities

Refer to note 20 to the consolidated financial statements for the loan receivables and note 1(n) to the consolidated financial statements for the accounting policies impairment of loan receivables.

The Key Audit Matter	How the matter was addressed in our audit
As at 31 December 2017, the Group has loan receivables from external parties amounting to HK$113 million which represent 16% of its total assets. These receivables are subject to credit risk. We identified the assessment of the recoverability of these loan receivables as a key audit matter because this assessment is subjective due to the judgement applied by management in ascertaining the repayment ability of the borrowers which in turn, affects the recoverability of the outstanding loans.	Our audit procedures for the assessment of the recoverability of the outstanding loan receivables included the following: • evaluated the controls over impairment allowances for the outstanding receivables, including the management's assessment over the borrowers' financial conditions and their repayment ability; • assessed the recoverable amounts from realisation of collaterals, if any, and other possible sources of repayment, including personal guarantee provided by individual or corporate guarantors in favour of the borrowers. • compared the estimated recoverable amounts with the outstanding receivable balances and considered any shortfall for impairment allowance; and • discussed with management on the adequacy of allowance for impairment loss, if any, to be made on the outstanding receivable balances.

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

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

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

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

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

Independent Auditors' Report

to the members of China Tian Yuan Healthcare Group Limited (incorporated in Cayman Islands with limited liability) for the year ended 31 December 2017

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs 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 ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

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

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

- 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.

Independent Auditors' Report

to the members of China Tian Yuan Healthcare Group Limited
(incorporated in Cayman Islands with limited liability)
for the year ended 31 December 2017

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Tay Puay Cheng.

KPMG LLP
Public Accountants and Chartered Accountants
16 Raffles Quay #22-00
Hong Leong Building
Singapore 048581

25 April 2018

Consolidated Statement of Profit or Loss

for the year ended 31 December 2017

	Note	2017 HK$'000	2016 HK$'000
Revenue	2	**175,280**	100,654
Cost of sales		**(23,228)**	(19,498)
Gross profit		**152,052**	81,156
Other net gains/(losses)	3	**25,915**	(30,712)
Administrative expenses		**(175,344)**	(119,847)
Profit/(Loss) from operating activities		**2,623**	(69,403)
Finance costs	4	**(2,025)**	(1,420)
Share of (loss)/profit of a joint venture		**(8)**	19,560
Share of profits of associates		**312**	520
Profit/(Loss) before taxation	4	**902**	(50,743)
Income tax expense	5a	**(2,330)**	(10,556)
Loss for the year		**(1,428)**	(61,299)
Attributable to:			
Equity shareholders of the Company	8	**14,877**	(57,550)
Non-controlling interests		**(16,305)**	(3,749)
Loss for the year		**(1,428)**	(61,299)
		HK cents	**HK cents**
Earnings per share			
Basic earnings/(loss) per share	9	**3.83**	(15.05)
Diluted earnings/(loss) per share	9	**3.83**	(15.05)

The notes on pages 49 to 127 form part of these financial statements.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

for the year ended 31 December 2017

	Note	2017 HK$'000	2016 HK$'000
Loss for the year		**(1,428)**	(61,299)
Other comprehensive income for the year (after taxation):	10		
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of foreign operations		**1,411**	96
Exchange differences on monetary item forming net investment in a foreign operation		**(257)**	26
Total comprehensive income for the year		**(274)**	(61,177)
Attributable to:			
Equity shareholders of the Company		**15,929**	(57,448)
Non-controlling interests		**(16,203)**	(3,729)
Total comprehensive income for the year		**(274)**	(61,177)

The notes on pages 49 to 127 form part of these financial statements.

Consolidated Statement of Financial Position
as at 31 December 2017

	Note	2017 HK$'000	2016 HK$'000
Non-current assets			
Property, plant and equipment	12	**55,383**	41,058
Intangible assets	13	**161,311**	7,064
Goodwill	14	**94,837**	8,941
Available-for-sale financial assets	15	**18,321**	18,179
Interests in associates	17	**6,682**	8,491
Trade and other receivables	18	**28,567**	–
Other financial assets	30	**13,120**	–
Total non-current assets		**378,221**	83,733
Current assets			
Trading securities	19	**47,077**	74,101
Trade and other receivables	18	**42,669**	29,854
Loan receivables	20	**113,408**	–
Current tax recoverable	5c	**2,884**	2,536
Cash and cash equivalents	21	**134,857**	339,945
		340,895	446,436
Current liabilities			
Trade and other payables	22	**(33,578)**	(27,928)
Interest-bearing borrowings	23	**(922)**	(719)
Provision for taxation		**(2,600)**	(180)
		(37,100)	(28,827)
Net current assets		**303,795**	417,609
Total assets less current liabilities		**682,016**	501,342
Non-current liabilities			
Deferred consideration	30	**(1,719)**	–
Dividends received in excess of earnings from equity-method accounted joint venture	24	**(227)**	(209)
Interest-bearing borrowings	23	**(28,946)**	(28,982)
Loans from non-controlling interests	25	**(42,787)**	(2,908)
Deferred rental expense		**(586)**	–
Deferred tax liabilities	26	**(15,908)**	–
Other financial liabilities	30	**(16,787)**	–
		(106,960)	(32,099)
NET ASSETS		**575,056**	469,243

The notes on pages 49 to 127 form part of these financial statements.

Consolidated Statement of Financial Position
as at 31 December 2017

	Note	2017 HK$'000	2016 HK$'000
Capital and reserves	27		
Share capital		**398,980**	382,450
Share premium		**20,663**	–
Reserves		**68,134**	52,205
Total equity attributable to equity shareholders of the Company		**487,777**	434,655
Non-controlling interests	28	**87,279**	34,588
TOTAL EQUITY		**575,056**	469,243

Approved and authorised for issue by the board of directors on 25 April 2018.

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Jiang Yulin
Chairman

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Zhang Xian
Chief Executive Officer

The notes on pages 49 to 127 form part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2017

	Attributable to equity shareholders of the Company							
	Share capital HK$'000	Share premium HK$'000	Capital redemption reserve HK$'000	Exchange reserve HK$'000	Revenue reserve HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
Balance at 1 January 2016	382,450	–	676	(593)	109,570	492,103	38,317	530,420
Changes in equity for 2016:								
Loss for the year	–	–	–	–	(57,550)	(57,550)	(3,749)	(61,299)
Other comprehensive income								
Items that may be reclassified subsequently to profit or loss:								
Exchange differences on translation of financial statements of foreign operations	–	–	–	76	–	76	20	96
Exchange differences on monetary item forming net investment in a foreign operation	–	–	–	26	–	26	–	26
Total other comprehensive income	–		–	102	–	102	20	122
Total comprehensive income for the year	–	–	–	102	(57,550)	(57,448)	(3,729)	(61,177)
Balance at 31 December 2016	382,450	–	676	(491)	52,020	434,655	34,588	469,243

The notes on pages 49 to 127 form part of these financial statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2017

	Attributable to equity shareholders of the Company							
	Share capital HK$'000	Share premium HK$'000	Capital redemption reserve HK$'000	Exchange reserve HK$'000	Revenue reserve HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
Balance at 1 January 2017	382,450	–	676	(491)	52,020	434,655	34,588	469,243
Changes in equity for 2017:								
Profit/(Loss) for the year	–	–	–	–	14,877	14,877	(16,305)	(1,428)
Other comprehensive income								
Items that may be reclassified subsequently to profit or loss:								
Exchange differences on translation of financial statements of foreign operations	–	–	–	1,309	–	1,309	102	1,411
Exchange differences on monetary item forming net investment in a foreign operation	–	–	–	(257)	–	(257)	–	(257)
Total other comprehensive income	–	–	–	1,052	–	1,052	102	1,154
Total comprehensive income for the year	–	–	–	1,052	14,877	15,929	(16,203)	(274)
Transactions with owners, recognised directly in equity								
Contributions by owners of the Company								
Issue of ordinary shares related to business combination	16,530	20,663	–	–	–	37,193	–	37,193
Total contributions by with owners	16,530	20,663	–	–	–	37,193	–	37,193
Changes in ownership interests in subsidiaries								
Acquisition of subsidiary with non-controlling interest	–	–	–	–	–	–	68,894	68,894
Total changes in ownership interest in subsidiaries	–	–	–	–	–	–	68,894	68,894
Balance at 31 December 2017	398,980	20,663	676	561	66,897	487,777	87,279	575,056

The notes on pages 49 to 127 form part of these financial statements.

Consolidated Statement of Cash Flows

for the year ended 31 December 2017

	Note	2017 HK$'000	2016 HK$'000
Operating activities			
Loss for the year		**(1,428)**	(61,299)
Income tax expense	5a	**2,330**	10,556
Profit/(Loss) before taxation		**902**	(50,743)
Adjustments for:			
Amortisation of intangible assets	4	**8,486**	3,985
Depreciation of property, plant and equipment	4	**3,286**	2,808
Dividend income	2	**(997)**	(1,719)
Finance costs	4	**2,025**	1,420
Plant and equipment written off	3	**1,356**	–
Interest income	2	**(8,190)**	(2,217)
Impairment loss on investment in an associate	3	**1,792**	–
Impairment loss on goodwill	3	**1,710**	–
Impairment loss on available-for-sale financial assets	3	**–**	14,832
Net realised and unrealised foreign exchange (gain)/loss	3	**(4,772)**	14,701
Net realised and unrealised valuation (gain)/loss on trading securities	3	**(25,457)**	1,179
Share of loss/(profit) of a joint venture		**8**	(19,560)
Share of profits of associates		**(312)**	(520)
(Reversal)/Recognition of impairment loss on trade and other receivables	4	**(178)**	238
		(21,243)	15,147
Operating loss before changes in working capital		**(20,341)**	(35,596)
Changes in working capital			
Loan receivables		**(113,408)**	—
Trade and other receivables		**(35,353)**	2,532
Trade and other payables		**5,228**	(1,208)
Cash used in operations		**(163,874)**	(34,272)
Interest received		**5,585**	2,101
Dividend received		**997**	1,719
Tax paid– overseas tax		**(9)**	(212)
Net cash used in operating activities		**(157,301)**	(30,664)

The notes on pages 49 to 127 form part of these financial statements.

Consolidated Statement of Cash Flows
for the year ended 31 December 2017

	Note	**2017** **HK$'000**	2016 HK$'000
Investing activities			
Acquisition of interest in subsidiaries (net of cash acquired)	30	**(121,889)**	–
Acquisition of interest in an associate		**(1,792)**	–
Payment for web development costs		**(3,382)**	(241)
Dividends received from a joint venture		**–**	248
Dividends received from associates		**132**	257
Decrease in bank deposits		**–**	9,771
Purchase of property, plant and equipment		**(18,495)**	(3,147)
Proceeds from disposal of an associate		**2,286**	–
Proceeds from sale of trading securities		**52,662**	1,619
Net cash (used in)/generated from investing activities		**(90,478)**	8,507
Financing activities			
Increase in cash pledged		**(407)**	(932)
Interest paid	21(b)	**(1,231)**	(1,327)
Loan from non-controlling interests	21(b)	**39,740**	2,908
Repayment of interest-bearing borrowings	21(b)	**(880)**	(896)
Net cash generated from/(used in) financing activities		**37,222**	(247)
Net decrease in cash and cash equivalents		**(210,557)**	(22,404)
Cash and cash equivalents at 1 January		**337,789**	364,257
Effect of foreign exchange rate changes		**5,062**	(4,064)
Cash and cash equivalents at 31 December	21	**132,294**	337,789

The notes on pages 49 to 127 form part of these financial statements.

Notes to the Financial Statements

31 December 2017

These notes form an integral part of the financial statements.

1. SIGNIFICANT ACCOUNTING POLICIES

(a) *Statement of Compliance*

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group and the Company. Note 1(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) *Basis of Preparation of the Financial Statements*

The consolidated financial statements for the year ended 31 December 2017 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates and joint arrangements.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that financial instruments classified as available-for-sale or as trading securities (Note 1(j)) are stated at their fair value as explained in the accounting policies.

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. 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.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainties are discussed in note 37.

Notes to the Financial Statements

31 December 2017

1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(c) Changes in Accounting Policies

The HKICPA has issued the following amendments to HKFRSs that are effective for the current accounting period of the Group:

- Amendments to HKAS 7, *Statement of cash flows: Disclosure initiative*
- Amendments to HKAS 12, *Recognition of deferred tax assets for unrealised losses*
- Amendments to HKFRS 12, *Disclosure of interests in other entities: Clarification of scope of standards*

None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. However, additional disclosure has been included in note 21(b) to satisfy the new disclosure requirements introduced by the amendments to HKAS 7, *Statement of cash flows: Disclosure initiative*, which require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

(d) Business Combinations

Business combinations are accounted for using the acquisition method as at the acquisition date, which is the date on which control is transferred to the Group.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss.

Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration that meets the definition of a financial instrument is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, other contingent consideration is remeasured at fair value at each reporting date and subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

Costs related to the acquisition, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

Notes to the Financial Statements

31 December 2017

1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(e) Subsidiaries and Non-controlling Interests

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Company, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Company. Non-controlling interests in the results of the Group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the year between non-controlling interests and the equity shareholders of the Company. Loans from holders of non-controlling interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated statement of financial position in accordance with note 1(p) or 1(r) depending on the nature of the liability.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is regarded as the fair value on initial recognition of a financial asset (Note 1(j)) or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture (Note 1(h)).

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (Note 1(n)), unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

Notes to the Financial Statements

31 December 2017

1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(f) Joint Arrangements

A joint arrangement is a contractual arrangement between the Group and other parties, where they have contractually agreed to share joint control, which exists only when decisions about relevant activities require the unanimous consent of the parties sharing control. A joint arrangement is either a joint operation or a joint venture.

(g) Joint Operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement.

The Group recognises its interest in the joint operation by combining the assets, liabilities, revenues and expenses relating to its interest with similar items on a line by line basis. Consistent accounting policies are applied for like transactions and events in similar circumstances.

The Group recognises its interest in the joint operation from the date that joint control commences until the date on which the Group ceases to have joint control over the joint operation.

Unrealised profits and losses resulting from transactions between the Group and its joint operations are eliminated to the extent of the Group's interest in the joint operation, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

When the Group ceases to have joint control over the joint operation, it is accounted for as a disposal of the entire interest in the joint operation, with a resulting gain or loss being recognised in profit or loss.

(h) Associates and Joint Ventures

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A joint venture is an arrangement whereby the Group or Company and other parties contractually agree to share control of the arrangement, and have rights to the net assets of the arrangement.

An investment in an associate or joint venture is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (Note 1(n)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investee and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investee's other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

Notes to the Financial Statements

31 December 2017

1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(h) Associates and Joint Ventures (cont'd)

When the Group's share of losses exceeds its interest in the associate or joint venture, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate or the joint venture.

Unrealised profits and losses resulting from transactions between the Group and its associates and joint venture are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

If an investment in an associate becomes an investment in a joint venture or vice versa, retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method.

In all other cases, when the Group ceases to have significant influence over an associate or joint control over a joint venture, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence or joint control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (Note 1(j)).

In the Company's statement of financial position, investments in associates and joint ventures are stated at cost less impairment losses (Note 1(n)), unless classified as held for sale (or included in a disposal group that is classified as held for sale).

(i) Goodwill

Goodwill represents the excess of:

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the Group's previously held equity interest in the acquiree; over

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or groups of cash-generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (Note 1(n)).

On disposal of a cash-generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

Notes to the Financial Statements

31 December 2017

1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(j) Other Investments in Debt and Equity Securities

The Group's and the Company's policies for investments in debt and equity securities, other than investments in subsidiaries, associates and joint ventures, are as follows:

Investments in debt and equity securities are initially stated at fair value, which is their transaction price unless it is determined that the fair value at initial recognition differs from the transaction price and that fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets. Cost includes attributable transaction costs, except where indicated otherwise below. These investments are subsequently accounted for as follows, depending on their classification:

Investments in securities held for trading are classified as current assets. Any attributable transaction costs are recognised in profit or loss as incurred. At the end of each reporting date, the fair value is remeasured, with any resultant gain or loss being recognised in profit or loss. The net gain or loss recognised in profit or loss does not include any dividends or interest earned on these investments as these are recognised in accordance with the policies set out in note 1(v) (iii) and 1(v) (iv), respectively.

Investments in securities which do not fall into held-for-trading or held-to-maturity categories are classified as available-for-sale securities. At the end of each reporting period, the fair value is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the fair value reserve. The cumulative gain or loss in fair value reserve is reclassified to profit or loss when derecognised or impaired (Note 1(n)). As an exception to this, investments in equity securities that do not have a quoted price in an active market for an identical instrument and whose fair value cannot otherwise be reliably measured are recognised in the statement of financial position at cost less impairment losses (Note 1(n)). Dividend income from equity securities and interest income from debt securities calculated using the effective interest method are recognised in profit or loss in accordance with the policies set out in notes 1(v) (iii) and 1(v) (iv), respectively. Foreign exchange gains and losses resulting from changes in the amortised cost of debt securities are also recognised in profit or loss.

Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or when they expire.

Notes to the Financial Statements

31 December 2017

1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(k) Property, Plant and Equipment

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (Note 1(n)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

Building	—	2.6%
Plant, machinery and equipment (comprising principally furniture and fixtures and office equipment)	—	6% to 33.33%
Motor vehicles	—	20%

No depreciation is provided on freehold land.

Both the useful life of an asset and its residual value, if any, are reviewed annually.

(l) Intangible Assets (Other Than Goodwill)

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (Note 1(n)).

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labour, and an appropriate proportion of overheads and borrowing costs, where appropriate. Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (Note 1(n)). Other development expenditure is recognised as an expense in the period in which it is incurred.

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

– Trademarks	10 to 15 years
– Franchise application	10 years
– Technology	5 to 11 years
– Customer relations	7 to 11 years
– Customer contracts	2 to 10 years
– Web development	3 to 5 years

Both the useful life and method of amortisation are reviewed annually.

Notes to the Financial Statements

31 December 2017

1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(m) Leased Assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

(ii) Assets acquired under finance leases

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are recognised as property, plant and equipment and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost of the assets over the term of relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in note 1(k). Impairment losses are accounted for in accordance with the accounting policy as set out in note 1(n). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(iii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

Notes to the Financial Statements

31 December 2017

1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(n) Impairment of Assets

(i) Impairment of investments in debt and equity securities and other receivables

Investments in debt and equity securities and other current and non-current receivables that are stated at cost or amortised cost or are classified as available-for-sale securities, are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in interest or principal payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;

– significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and

– a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

If any such evidence exists, any impairment loss is determined and recognised as follows:

– For investments in associates and joint ventures accounted for under the equity method in the consolidated financial statements (Note 1(h)), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with note 1(n) (ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 1(n) (ii).

– For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

  If in a subsequent period, the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Notes to the Financial Statements

31 December 2017

1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(n) Impairment of Assets (cont'd)

(i) Impairment of investments in debt and equity securities and other receivables (Continued)

– For available-for-sale securities carried at fair value, the cumulative loss that has been recognised in the fair value reserve is reclassified to profit or loss. The amount of the cumulative loss that is recognised in profit or loss is the difference between the acquisition cost (net of any principal repayment and amortisation) and current fair value, less any impairment loss on that asset previously recognised in profit or loss.

  Impairment losses recognised in profit or loss in respect of available-for-sale equity securities carried at fair value are not reversed through profit or loss. Any subsequent increase in the fair value of such assets is recognised in other comprehensive income.

  Impairment losses in respect of available-for-sale debt securities are reversed if the subsequent increase in fair value can be objectively related to an event occurring after the impairment loss was recognised. Reversals of impairment losses in such circumstances are recognised in profit or loss.

– For unquoted available-for-sale equity securities carried at cost, the impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for equity securities carried at cost are not reversed.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

– property, plant and equipment;

– intangible assets;

– goodwill; and

– investments in subsidiaries, associates and joint ventures in the Company's statement of financial position.

Notes to the Financial Statements

31 December 2017

1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(n) Impairment of Assets (cont'd)

(ii) Impairment of other assets (Continued)

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, intangible assets that are not yet available for use and intangible assets that have indefinite useful lives, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of fair value less costs of disposal 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 time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro-rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

– Reversal of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

Notes to the Financial Statements

31 December 2017

1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(n) Impairment of Assets (cont'd)

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with HKAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (Notes 1(n) (i) and 1(n) (ii)).

Impairment losses recognised in an interim period in respect of goodwill and available-for-sale equity securities are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates. Consequently, if the fair value of an available-for-sale equity security increases in the remainder of the annual period, or in any other period subsequently, the increase is recognised in other comprehensive income and not profit or loss.

(o) Trade and Other Receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (Note 1(n)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts (Note 1(n)).

(p) Trade and Other Payables

Trade and other payables are initially recognised at fair value and are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(q) Cash and Cash Equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

Notes to the Financial Statements

31 December 2017

1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(r) Interest-bearing Borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(s) Other financial assets and liabilities

Other financial assets comprise dividend right forgone by non-controlling shareholders and revenue and profit guarantee from non-controlling shareholders. They are recognised initially at their fair values at the date of business acquisitions and are subsequently measured at fair values with fair value changes recognised in capital reserve and profit and loss respectively.

The fair value of the dividend right forgone is determined based on the discounted cash flow of future expected dividends to be forgone by the non-controlling shareholders.

The fair value of revenue and profit guarantee is determined based on the discounted cash flow of the expected compensation for each guaranteed period taking into consideration the probability of achieving the guaranteed revenue and profit for each guaranteed period.

Other financial liabilities comprise the fair value of put and call option. This liability arises when new acquisitions have contractual obligations enabling (i) the Company to require non-controlling shareholders to sell their shares to the Company and (ii) non-controlling shareholders to put their shares back to the Company, at an agreed price. This liability is recognised initially at the fair value at the date of business acquisitions and is subsequently measured at fair value with fair value changes recognised in profit and loss.

The fair value of the put and call option is determined using Black-Scholes Option Pricing Model.

(t) Employee Benefits

(i) Short-term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

Notes to the Financial Statements

31 December 2017

1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(u) Income Tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profit will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Notes to the Financial Statements

31 December 2017

1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(u) Income Tax (cont'd)

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

– in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

– in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  – the same taxable entity; or

  – different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

In the ordinary course of business, there are many transactions and calculations for which the ultimate tax treatment is uncertain. Therefore, the Group recognises tax liabilities based on estimates of whether additional taxes and interest will be due. These tax liabilities are recognised when the Group believes that certain positions may not be fully sustained upon review by tax authorities, despite the Group's belief that its tax return positions are supportable. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of multifaceted judgements about future events. New information may become available that causes the Group to change its judgement regarding the adequacy of existing tax liabilities, such changes to tax liabilities will impact tax expense in the period that such a determination is made.

Notes to the Financial Statements

31 December 2017

1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(v) Revenue Recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) Hotel management revenue

Revenue arising from hotel management services and provision of hotel reservation services is recognised when the relevant services are rendered.

(ii) Hotel operations

Revenue from hotel operations is recognised on an accrual basis, upon rendering of the relevant services.

(iii) Dividends

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

Dividend income from listed investments is recognised when the share price of the investment becomes ex-dividend.

(iv) Interest income

Interest income is recognised as it accrues using the effective interest method.

(v) Procurement, marketing and management service income

Revenue arising from the provision of procurement, marketing and management services is recognised when the relevant services are rendered.

(vi) Royalty income

Revenue arising from licensing of trademarks is recognised on an accrual in accordance with the terms of the relevant agreement.

(vii) Referral fees and loan handling fees

Referral fees and loan handing fees generated from money lending and related business activities are recognised on an accrual basis, upon rendering of the relevant services.

Notes to the Financial Statements

31 December 2017

1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(w) Translation of Foreign Currencies

(i) Foreign currency transactions

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting year. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

(ii) Translation of foreign currencies

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items, including goodwill arising on consolidation of foreign operations acquired on or after 1 January 2005, are translated into Hong Kong dollars at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in exchange reserve. Goodwill arising on consolidation of a foreign operation acquired before 1 January 2005 is translated at the foreign exchange rate that applied at the date of acquisition of the foreign operation.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(iii) Net investment in a foreign operation

Exchange differences arising from monetary items that in substance form part of the Company's net investment in a foreign operation are recognised in the Company's statement of profit or loss. Such exchange differences are reclassified to equity in the consolidated financial statements. When the foreign operation is disposed of, the cumulative amount in equity is transferred to the statement of profit or loss as an adjustment to the profit or loss arising on disposal.

(x) Finance Costs

Finance costs comprise interest expenses on borrowings and expenses incurred in connection with the arrangement of debt facilities.

Interest expenses on borrowings are recognised in the statement of profit or loss using the effective interest method. Expenses incurred in connection with the arrangement of debt facilities are recognised in the statement of profit or loss on an effective interest basis over the period for which the debt facilities are granted.

Notes to the Financial Statements

31 December 2017

1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(y) Related Parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

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

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of the Group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

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

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

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(z) Segment Reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

Notes to the Financial Statements

31 December 2017

1. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

(aa) Provisions and Contingent Liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

2. REVENUE

Revenue of the Group comprises revenue from the provision of hospitality related services, healthcare related services and money lending and related business activities, dividend income and interest income. The amount of each significant category of revenue and recognised during the year is as follows:

	2017 HK$'000	2016 HK$'000
Hospitality related services	**105,951**	96,718
Healthcare related services		
– Royalty fees	**2,695**	–
– Management fees	**3,974**	–
Money lending and related business activities		
– Referral fees	**47,410**	–
– Loan handling fees	**6,063**	–
– Interest income on third party loans	**5,676**	–
Dividend income	**997**	1,719
Interest income on bank deposits	**2,514**	2,217
	175,280	100,654

Further details regarding the Group's principal activities are disclosed in note 29 to these financial statements.

Notes to the Financial Statements

31 December 2017

3. OTHER NET GAINS/(LOSSES)

	2017 HK$'000	2016 HK$'000
Impairment loss on available-for-sale financial assets	**–**	(14,832)
Impairment loss on goodwill	**(1,710)**	–
Impairment loss on investment in an associate	**(1,792)**	–
Net realised and unrealised foreign exchange gain/(loss)	**4,772**	(14,701)
Net realised and unrealised valuation gain/(loss) on trading securities	**25,457**	(1,179)
Plant and equipment written off	**(1,356)**	–
Miscellaneous income	**544**	–
	25,915	(30,712)

4. PROFIT/(LOSS) BEFORE TAXATION

Profit/(Loss) before taxation is arrived at after charging/(crediting):

	2017 HK$'000	2016 HK$'000
Finance costs		
Amortisation of capitalised transaction costs	**841**	93
Interest expenses on borrowings	**1,184**	1,327
	2,025	1,420
Staff costs		
Salaries, wages and other benefits	**105,656**	71,613
Other items		
Amortisation of intangible assets	**8,486**	3,985
Auditors' remuneration		
– audit services	**2,616**	2,984
– tax related services	**1,681**	27
– other services	**1,258**	1,652
Depreciation of property, plant and equipment	**3,286**	2,808
(Reversal)/Recognition of impairment loss on trade and other receivables	**(178)**	238
Operating lease charges – rental of properties	**5,327**	4,239
Acquisition-related costs	**3,940**	–

Notes to the Financial Statements

31 December 2017

5. INCOME TAX

(a) Taxation in the consolidated statement of profit or loss represents:

	2017 HK$'000	2016 HK$'000
Current tax		
Provision for the year	**2,330**	287
Under-provision in respect of prior years	**–**	80
	2,330	367
Deferred tax		
Origination and reversal of temporary differences	**–**	10,189
Income tax expense	**2,330**	10,556

The provision for Hong Kong Profits Tax for the year ended 31 December 2017 is calculated at 16.5% (2016: 16.5%) of the estimated assessable profits for the year, taking into account a reduction granted by the Hong Kong SAR Government of 75% of the tax payable for the year of assessment 2016/17 subject to a maximum reduction of HK$20,000 for each business. Taxation for overseas subsidiaries has been provided on estimated assessable profits at the rates of taxation ruling in the relevant countries.

The Company is exempted from taxation in the Cayman Islands for a period of twenty years from 1989 under the provisions of Section 6 of the Tax Concessions Law (Revised) of the Cayman Islands. The tax concession was renewed for a further period of twenty years from 2 June 2009.

Notes to the Financial Statements

31 December 2017

5. INCOME TAX (cont'd)

(b) Reconciliation between tax expense and accounting loss at applicable tax rates:

	2017 HK$'000	2016 HK$'000
Profit/(Loss) before taxation	**902**	(50,743)
Income tax using Hong Kong tax rates	**149**	(8,373)
Tax effect of non-taxable income	**(7,127)**	(6)
Tax effect of non-deductible expenses	**2,633**	9,976
Effect of tax rates in foreign jurisdictions	**(1,657)**	1,512
Effect of tax on non-controlling interest's share of loss pass through different taxpayer	**2,563**	520
Unrecognised deferred tax assets	**6,541**	6,847
Under-provision in respect of prior years	**–**	80
Utilisation of previously unrecognised tax losses	**(772)**	–
Actual income tax expense	**2,330**	10,556

(c) Current tax recoverable in the statement of financial position represents:

	2017 HK$'000	2016 HK$'000
Recoverable for overseas tax for the year	**329**	1,051
Recoverable for overseas tax relating to prior years	**2,555**	1,485
	2,884	2,536

Notes to the Financial Statements

31 December 2017

6. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation is as follows:

	Directors' fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Retirement scheme contributions HK$'000	Total HK$'000
2017				
Executive Directors				
Lawrence Yip Wai Lam				
(retired on 30 June 2017)	**300**	**–**	**–**	**300**
Jiang Yulin	**20,000**	**–**	**–**	**20,000**
Zhang Xian (Chief Executive Officer)	**4,000**	**–**	**–**	**4,000**
Independent Non-Executive Directors				
Guo Jingbin	**180**	**–**	**–**	**180**
Hu Baihe	**180**	**–**	**–**	**180**
Yuen Kwok Kuen	**180**	**–**	**–**	**180**
	24,840	**–**	**–**	**24,840**
Chief Executive Officer*				
Wong Hong Ren (resigned on 11 July 2017)	**–**	**4,045**	**–**	**4,045**

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6. DIRECTORS' REMUNERATION (cont'd)

	Directors' fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Retirement scheme contributions HK$'000	Total HK$'000
2016				
Executive Directors				
Kwek Leng Beng (resigned on 9 September 2016)	259	–	–	259
Gan Khai Choon (resigned on 9 September 2016)	69	–	–	69
Lawrence Yip Wai Lam	50	–	–	50
Jiang Yulin (appointed on 19 August 2016)	7,366	–	–	7,366
Zhang Xian (appointed on 19 August 2016)	1,473	–	–	1,473
		–	–	
Non-Executive Directors		–	–	
Chan Bernard Charnwut (resigned on 9 September 2016)	134	–	–	134
Ronald Nathaniel Issen (resigned on 9 September 2016)	69	–	–	69
		–	–	
Independent Non-Executive Directors		–	–	
Dr. Lo Ka Shui (resigned on 9 September 2016)	69	–	–	69
Lee Jackson @ Li Chik Sin (resigned on 9 September 2016)	134	–	–	134
Teoh Teik Kee (resigned on 9 September 2016)	199	–	–	199
Guo Jingbin (appointed on 19 August 2016)	66	–	–	66
Hu Baihe (appointed on 19 August 2016)	66	–	–	66
Yuen Kwok Kuen (appointed on 19 August 2016)	66	–	–	66
	10,020	–	–	10,020
Chief Executive Officer*				
Wong Hong Ren	–	2,995	–	2,995

* In accordance with Paragraph 24 of Appendix 16 to the Hong Kong Exchange Listing Rules, references to 'Director' include a Chief Executive Officer who is not a director.

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7. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (2016: one) of them are directors whose emolument is disclosed in note 6. The aggregate of the emoluments in respect of the other three (2016: four) individuals are as follows:

	2017 HK$'000	2016 HK$'000
Salaries and other emoluments	**7,548**	7,723
Discretionary bonuses	**–**	–
	7,548	7,723

The emoluments of the three (2016: four) individuals with the highest emoluments are within the following bands:

	2017 Number of individuals	2016 Number of individuals
HK$Nil – HK$1,000,000	**–**	–
HK$1,000,001 – HK$1,500,000	**–**	–
HK$1,500,001 – HK$2,000,000	**2**	3
HK$2,000,001 – HK$2,500,000	**–**	–
HK$2,500,001 – HK$3,000,000	**–**	1
HK$3,000,001 – HK$3,500,000	**–**	–
HK$3,500,001 – HK$4,000,000	**–**	–
HK$4,000,001 – HK$4,500,000	**1**	–

8. GAIN/(LOSS) ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated gain/(loss) attributable to equity shareholders of the Company includes a gain of HK$37,949,000 (2016: loss of HK$80,966,000) which has been dealt with in the financial statements of the Company.

9. EARNINGS PER SHARE

(a) Basic earnings/(loss) per share

The calculation of basic earnings/(loss) per share is based on the profit/(loss) attributable to ordinary equity shareholders of the Company of HK$14,877,000 (2016: loss of HK$57,550,000) and on the weighted average number of ordinary shares of 387,959,524 (2016: 382,449,524 shares) in issue during the year, calculated as follows:

	2017	2016
Issued ordinary shares as at 1 January	**382,449,524**	382,449,524
Effect of shares issued in relation to business combinations	**5,510,000**	–
Weighted average number of ordinary shares at 31 December	**387,959,524**	382,449,524

(b) Diluted earnings/(loss) per share

Diluted earnings/(loss) per share is not applicable as there are no dilutive potential ordinary shares during the year.

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10. OTHER COMPREHENSIVE INCOME

Tax effects relating to each component of other comprehensive income

	2017			2016		
	Before tax amount HK$'000	Tax expenses HK$'000	Net of tax amount HK$'000	Before tax amount HK$'000	Tax expenses HK$'000	Net of tax amount HK$'000
Exchange differences on translation of financial statements of foreign operations	**1,411**	**–**	**1,411**	96	–	96
Exchange differences on monetary item forming net investment in a foreign operation	**(257)**	**–**	**(257)**	26	–	26
	1,154	**–**	**1,154**	122	–	122

11. SEGMENT REPORTING

The Group manages its businesses by divisions, which are organised by products and services. The Group has identified the following four reportable segments based on the information that is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment:

– Investment holding : This segment relates to investments in listed equity investments, and unlisted marketable equitable equity mutual funds held as trading securities and investment in an unlisted equity fund classified as available-for-sale financial assets. Currently, the Group's equity investment portfolio includes equity securities listed on NASDAQ Stock Market and The Philippines Stock Exchange, Inc. and investment portfolio in the United States and Hong Kong.

– Hospitality : This segment primarily derives the revenue from the provision of hotel management, hotel reservation, hotel revenue management services, risk management services and procurement services relating to the hospitality industry as well as owning and managing hotels. Currently, the Group's activities in this segment are carried out in the United States.

– Healthcare : This segment primarily derives the revenue from the provision of procurement, marketing and management services to the medical industry as well as royalty fees from the licensing of trademarks. Currently, the Group's activities in this segment are carried out in Hong Kong and Korea.

– Money lending and related business : This segment primarily derives the revenue from the interests earned from the provision of loans to third parties, as well as referral and handling fees receivable for the provision of loan related services and the introduction of prospective lenders and borrowers.

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11. SEGMENT REPORTING (cont'd)

(a) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's most senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible assets, intangible assets, goodwill and current assets with the exception of current tax recoverable. Segment liabilities include interest-bearing borrowings, trade and other payables and dividends received in excess of earnings from equity-method accounted joint venture, with the exception of current and deferred tax liabilities.

Revenue and expenses are allocated to the reportable segments with reference to income generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments. Segment revenue and expenses include the Group's share of revenue and expenses arising from the activities of the Group's joint operation.

The measure used for reporting segment profit is "profit from operations". In addition to receiving segment information concerning profit from operations, management is provided with segment information concerning revenue, interest income, depreciation and amortisation, impairment losses, foreign exchange gain/loss, gain/loss on trading securities and additions to non-current segment assets used by the segments in their operations.

(b) Information about reportable segments

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2017 and 2016 is set out below:

	Investment Holding		Hospitality		Healthcare		Money Lending and Related Business		Total	
	2017 HK$'000	2016 HK$'000	2017 HK$'000	2016 HK$'000	2017 HK$'000	2016 HK$'000	2017 HK$'000	2016 HK$'000	2017 HK$'000	2016 HK$'000
Revenue from external customers	**997**	1,719	**105,951**	96,718	**6,669**	–	**53,473**	–	**167,090**	98,437
Interest income	**2,218**	2,126	**296**	91	**–**	–	**5,676**	–	**8,190**	2,217
Reportable segment revenue	**3,215**	3,845	**106,247**	96,809	**6,669**	–	**59,149**	–	**175,280**	100,654
Reportable segment (loss)/profit	**(21,985)**	(54,231)	**(38,112)**	3,488	**1,850**	–	**59,149**	–	**902**	(50,743)
Depreciation and amortisation	**(309)**	(48)	**(6,305)**	(6,745)	**(5,158)**	–	**–**	–	**(11,772)**	(6,793)
Impairment loss on available-for-sale financial assets	**–**	(14,832)	**–**	–	**–**	–	**–**	–	**–**	(14,832)
Impairment loss on goodwill	**–**	–	**(1,710)**	–	**–**	–	**–**	–	**(1,710)**	–
Impairment loss on investment in an associate	**(1,792)**	–	**–**	–	**–**	–	**–**	–	**(1,792)**	–
Net realised and unrealised valuation gain/(loss) on trading securities	**25,457**	(1,179)	**–**	–	**–**	–	**–**	–	**25,457**	(1,179)
Net realised and unrealised foreign exchange gain/(loss)	**4,741**	(14,623)	**(16)**	(78)	**47**	–	**–**	–	**4,772**	(14,701)
Plant and equipment written off	**–**	–	**(1,356)**	–	**–**	–	**–**	–	**(1,356)**	–
Additions to non-current assets	**10**	1,525	**27,569**	1,861	**153,950**	–	**–**	–	**181,529**	3,386
Reportable segment assets	**225,155**	329,167	**116,811**	198,466	**258,226**	–	**116,040**	–	**716,232**	527,633
Reportable segment liabilities	**8,039**	5,002	**99,859**	55,744	**17,654**	–	**–**	–	**125,552**	60,746

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11. SEGMENT REPORTING (cont'd)

(c) Reconciliations of reportable segment assets and liabilities

	2017 HK$'000	2016 HK$'000
Assets		
Reportable segment assets	**716,232**	527,633
Current tax recoverable	**2,884**	2,536
Consolidated total assets	**719,116**	530,169
Liabilities		
Reportable segment liabilities	**125,552**	60,746
Deferred tax liabilities	**15,908**	–
Provision for taxation	**2,600**	180
Consolidated total liabilities	**144,060**	60,926

(d) Geographical segments

The Group's investing activities and money lending and related business activities are mainly carried out in Hong Kong. Hospitality activities are carried out by the subsidiaries based in the United States. Healthcare activities are carried out by the subsidiaries based in Hong Kong and Korea.

In presenting information on the basis of geographical segments, segment revenue in relation to investment holding is based on the geographical location of investments and segment revenue in relation to hospitality, healthcare and money lending and related businesses are based on the geographical location of customers. Segment assets are based on the geographical location of the assets.

(e) Geographical information

2017	Revenue HK$'000	Non-current assets HK$'000
Hong Kong	**3,215**	**27,154**
United States	**102,809**	**77,837**
British Virgin Islands	**11,591**	**–**
Cayman Islands	**–**	**18,321**
China	**47,558**	**–**
Singapore	**70**	**297**
Korea	**6,669**	**249,939**
Spain	**3,368**	**4,673**
	175,280	**378,221**

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11. SEGMENT REPORTING (cont'd)

(e) Geographical information *(cont'd)*

2016	**Revenue HK$'000**	**Non-current assets HK$'000**
Hong Kong	3,503	1,493
China	–	1,558
United States	97,145	62,401
Cayman Islands	–	18,179
Singapore	6	102
	100,654	83,733

Major customer

Revenue from the largest customer of the Group's money lending and related business segment (2016: hospitality segment) amounted to HK$47,410,000 (2016: HK$8,679,000) represents approximately 27% (2016: 8%) of the Group's total revenue.

12. PROPERTY, PLANT AND EQUIPMENT

	Freehold land HK$'000	**Building HK$'000**	**Plant, machinery and equipment HK$'000**	**Motor vehicles HK$'000**	**Total HK$'000**
Cost					
At 1 January 2016	5,058	35,164	13,820	–	54,042
Additions	–	39	2,404	704	3,147
Disposals	–	–	(39)	–	(39)
Exchange adjustments	2	30	(25)	–	7
At 31 December 2016	5,060	35,233	16,160	704	57,157
At 1 January 2017	**5,060**	**35,233**	**16,160**	**704**	**57,157**
Acquisition of subsidiaries	**–**	**–**	**133**	**–**	**133**
Additions	**–**	**617**	**17,878**	**–**	**18,495**
Written off	**–**	**–**	**(2,532)**	**–**	**(2,532)**
Exchange adjustments	**43**	**271**	**147**	**–**	**461**
At 31 December 2017	**5,103**	**36,121**	**31,786**	**704**	**73,714**

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12. PROPERTY, PLANT AND EQUIPMENT (cont'd)

	Freehold land HK$'000	Building HK$'000	Plant, machinery and equipment HK$'000	Motor vehicles HK$'000	Total HK$'000
Accumulated depreciation and impairment losses					
At 1 January 2016	28	4,311	8,985	–	13,324
Depreciation for the year	–	955	1,841	12	2,808
Disposals	–	–	(31)	–	(31)
Exchange adjustments	–	(5)	3	–	(2)
At 31 December 2016	28	5,261	10,798	12	16,099
At 1 January 2017	**28**	**5,261**	**10,798**	**12**	**16,099**
Depreciation for the year	**–**	**951**	**2,194**	**141**	**3,286**
Written off	**–**	**–**	**(1,176)**	**–**	**(1,176)**
Exchange adjustments	**3**	**48**	**71**	**–**	**122**
At 31 December 2017	**31**	**6,260**	**11,887**	**153**	**18,331**
Net book value					
At 1 January 2016	5,030	30,853	4,835	–	40,718
At 31 December 2016	5,032	29,972	5,362	692	41,058
At 31 December 2017	**5,072**	**29,861**	**19,899**	**551**	**55,383**

Freehold land is situated outside Hong Kong and is being held for own use.

At 31 December 2017, property, plant and equipment of the Group with a carrying amount of HK$36,209,000 (2016: HK$36,633,000) were pledged as security to secure bank loans (Note 23).

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13. INTANGIBLE ASSETS

	Trademarks HK$'000	Franchise application HK$'000	Technology HK$'000	Customer relations HK$'000	Customer contracts HK$'000	Web development HK$'000	Web development in progress HK$'000	Total HK$'000
Cost								
At 1 January 2016	2,637	332	14,916	1,674	–	3,471	–	23,030
Additions	–	–	–	–	–	241	–	241
Exchange adjustments	1	1	12	2	–	2	–	18
At 31 December 2016	2,638	333	14,928	1,676	–	3,714	–	23,289
At 1 January 2017	**2,638**	**333**	**14,928**	**1,676**	**–**	**3,714**	**–**	**23,289**
Acquisition of subsidiaries	**126,723**	**–**	**–**	**–**	**32,796**	**–**	**–**	**159,519**
Additions	**–**	**–**	**–**	**–**	**–**	**1,044**	**2,338**	**3,382**
Exchange adjustments	**(154)**	**3**	**116**	**12**	**(34)**	**33**	**6**	**(18)**
At 31 December 2017	**129,207**	**336**	**15,044**	**1,688**	**32,762**	**4,791**	**2,344**	**186,172**
Accumulated amortisation and impairment losses								
At 1 January 2016	1,441	81	9,075	795	–	845	–	12,237
Charge for the year	107	17	2,371	209	–	1,281	–	3,985
Exchange adjustments	3	3	(3)	1	–	(1)	–	3
At 31 December 2016	1,551	101	11,443	1,005	–	2,125	–	16,225
At 1 January 2017	**1,551**	**101**	**11,443**	**1,005**	**–**	**2,125**	**–**	**16,225**
Charge for the year	**4,317**	**16**	**919**	**210**	**1,949**	**1,075**	**–**	**8,486**
Exchange adjustments	**19**	**–**	**87**	**12**	**12**	**20**	**–**	**150**
At 31 December 2017	**5,887**	**117**	**12,449**	**1,227**	**1,961**	**3,220**	**–**	**24,861**
Net book value								
At 1 January 2016	1,196	251	5,841	879	–	2,626	–	10,793
At 31 December 2016	1,087	232	3,485	671	–	1,589	–	7,064
At 31 December 2017	**123,320**	**219**	**2,595**	**461**	**30,801**	**1,571**	**2,344**	**161,311**

The amortisation charge for the Group's trademarks, technology, customer relations, customer contracts and web development and the Group's share of the joint operation's franchise application are included in "administrative expenses" in the consolidated statement of profit or loss.

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14. GOODWILL

	Note	HK$'000
At 1 January 2016		8,934
Translation differences		7
At 31 December 2016		8,941
Acquisitions through business combinations	**30**	**87,599**
Impairment loss		**(1,710)**
Translation differences		**7**
At 31 December 2017		**94,837**

Impairment testing for cash-generating unit containing goodwill

For the purpose of impairment testing, goodwill is allocated to hotel operations of Sheraton Chapel Hill Hotel and hotel reservation business of Sceptre Hospitality Resources, LLC which are included in the hospitality segment. The provisional goodwill arising from the acquisition entered into by the Group in the current year is allocated to the healthcare business of PRIP Communications Limited.

Recoverable amounts are determined by management based on the following:

(a) As at the reporting date, the Group has determined the recoverable amount of the hotel operations of Sheraton Chapel Hill Hotel based on its value in use calculation. The value in use calculation is a discounted cash flow model using cash flow projections based on the most recent budgets and forecasts approved by the management covering a period of 5 years and using a discount rate of 17.5% (2016: 14.5%). The terminal value is calculated by applying an exit multiple of 12 times (2016: 10 times) to the projected terminal period Earnings Before Interest, Taxes, Depreciation and Amortisation ("EBITDA") and it is discounted using a capitalisation rate of 8.3% (2016: 9.3%). The exit multiple for the terminal value is based on the Enterprise Value/EBITDA of comparable business enterprises.

(b) As at the reporting date, the Group has determined the recoverable amount of the hotel reservation business based on the average of the fair values determined under the discounted cash flow method and guideline public company method.

The discounted cash flow method uses cash flow projections based on the most recent budgets and forecasts approved by the management covering a period 5 years and using a discount rate of 16.0% (2016: 13.0%). The terminal value is calculated by applying a capitalisation rate of 13.0% (2016: 10.0%) on the residual free cash flow based on EBITDA.

The guideline public company method entails a comparison of the subject company to publicly traded companies. The comparison is based on published data regarding the public companies' stock prices, earnings or sales. The comparison is known as multiple. The multiple of 0.65 times (2016: multiple of 1.0 times) for revenue is used in determining the recoverable amount of the hotel reservation business.

(c) As at the reporting date, the Group has determined the recoverable amount of the healthcare business based on its value in use calculation. The value in use calculation is a discounted cash flow model using cash flows projections based on the licensing of DA trademark in markets identified covering a period of 10 years using a discount rate of 14.5%. The terminal value is calculated by applying a capitalisation rate of 12.5% on the pre-tax royalty income.

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14. GOODWILL (cont'd)

Impairment testing for cash-generating unit containing goodwill (cont'd)

During the year, an impairment loss of HK$1.7 million (2016: nil) is recognised on the goodwill relating to the hotel operations of Sheraton Chapel Hill Hotel based on the above assessment as the business is operating at a loss and the management do not project a significant improvement in the foreseeable future. There is no impairment loss recognised on the goodwill relating to the hotel reservation business and the healthcare business based on the above impairment testings undertaken by the management.

The management believes that any reasonable possible change in the key assumptions used are not likely to cause significant changes to the result of the above assessment.

15. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	HK$'000
At 1 January 2016	32,985
Impairment loss	(14,832)
Translation differences	26
At 31 December 2016	**18,179**
Translation differences	**142**
At 31 December 2017	**18,321**

The details of available-for-sale financial assets held by the Group is as follows:

	2017		2016	
	Capital contributed HK$'000	**Percentage contribution %**	Capital contributed HK$'000	Percentage contribution %
BEA Blue Sky Real Estate Fund LP (the "Fund"), unlisted	**32,996**	**49.5**	32,996	49.5

The Fund is a closed-ended private equity fund structured as a Cayman Islands exempted limited partnership, organised for the sole purpose of subscribing for a limited partnership interest in the China Fund. The China Fund is a real estate private equity fund established for the purpose of making investments in real estate assets and real estate-related assets in China.

In 2016, an impairment loss of HK$14.8 million was recognised on the Fund in view of (i) the depreciation of Renminbi (which is the denominated currency of the China Fund) against the functional currency of the China Fund (which is the US Dollar) and (ii) the under-performance of the underlying property held by the China Fund (the "Property"), both occupancy rate and rental yield, as compared to the initial forecast. The under-performance of the underlying property was due to the Property has not yet reached the stabilisation stage.

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15. AVAILABLE-FOR-SALE FINANCIAL ASSETS (cont'd)

In 2017, the management performed an impairment assessment and determined the recoverable amount based on the net assets value of the China Fund as at 31 December 2017. The China Fund comprises largely the property which is stated at its estimated fair value. The estimated fair value of the property was determined based on the discounted cash flow valuation (for the phase 1 development) and comparable based valuation (for the phase 2 development) carried out by the fund manager. The key assumptions used are as follows:

– discount rate of 8.67% (2016: 7.88%)

– terminal capitalisation rate of 6.25% (2016: 6.25%)

– estimated selling price for the land of US$790 per square feet (2016: US$720 per square feet)

Based on the above assessment, the recoverable amount exceeded the carrying amount of the investment and accordingly, no additional impairment loss was recognised in 2017.

16. INTEREST IN A JOINT OPERATION

	2017 HK$'000	2016 HK$'000
Line-by-line interest in net assets of joint operation that are combined into the consolidated financial statements, including line-by-line interest in goodwill as below	**11,573**	14,370
Line-by-line interest in goodwill that is combined into the consolidated financial statements	**–**	1,694

Details of the Group's net interest in the joint operation, which is accounted for in the consolidated financial statements using the accounting policy in note 1(f), are as follows:

			Proportion of ownership interest			
			2017		2016	
Name of joint operation/ Principal activities	**Form of business structure**	**Place of operation**	**Group's effective interest %**	**Held by subsidiary %**	**Group's effective interest %**	**Held by subsidiary %**
Sheraton Chapel Hill hotel (Provision of hospitality related services)	Tenant-in-common agreement	USA	43	50	43	50

The Group, through an indirect subsidiary, SWAN Carolina Investor, LLC ("SCI"), entered into a tenant-in-common agreement with SFI Carolina TIC SPE, LLC, a wholly-owned subsidiary of Shelbourne Falcon Investors, LP, to own an equal 50% tenant-in-common interest in Sheraton Chapel Hill hotel (the "Property") for the purpose of owning and operating the Property as a hotel and as an investment. During the year, SFI Carolina TIC SPE, LLC sold its 50% tenant-in-common interest to Whiteboard Investments, LLC.

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16. INTEREST IN A JOINT OPERATION (cont'd)

The table below summarised the Group's line-by-line interest in the results, assets and liabilities of the joint operation that had been combined into the Group's statement of financial position and consolidated statement of profit or loss.

	2017 HK$'000	2016 HK$'000
Non-current assets	**36,428**	38,554
Current assets	**8,718**	8,539
Non-current liabilities	**(28,950)**	(29,678)
Current liabilities	**(4,623)**	(3,045)
Net assets	**11,573**	14,370
Revenue	**21,799**	24,446
Expenses	**(24,322)**	(23,542)
(Loss)/Profit for the year	**(2,523)**	904

17. INTERESTS IN ASSOCIATES

	2017 HK$'000	2016 HK$'000
Share of net assets	**6,682**	8,491

Details of the Group's interests in the associates are as follows:

Name of associate/ principal activities	Form of business structure	Place of incorporation and operation	Issued and paid up capital US$	Proportion of ownership interest 2017 Group's effective interest %	2017 Held by subsidiary %	2016 Group's effective interest %	2016 Held by subsidiary %
S-R Burlington Partners, LLC (Provision of hospitality related services)	Incorporated	USA	2,970,281	27	32	27	32
Cosmic Hospitality China Limited (Provision of hospitality related services)	Incorporated	China	400,000	–	–	43	50
Star Time Limited (Dormant)	Incorporated	Hong Kong	18,180	45	45	–	–

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17. INTERESTS IN ASSOCIATES (cont'd)

All of the above associates are accounted for using the equity method in the consolidated financial statements. None of the associates are individually material to the Group. Aggregate information of the associates that are not individually material, is as follows:

	2017 HK$'000	2016 HK$'000
Aggregate carrying amount of individually immaterial associates in the consolidated financial statements	**6,682**	8,491
Aggregate amounts of the Group's share of those associates:		
Profit from continuing operations	**312**	520

Acquisition of interests in Star Time Limited

In January 2017, the Group acquired 45% interests in Star Time Limited for a consideration of HK$1.8 million. During the year, the Group assessed the carrying amount of its investment in the associate for indicators of impairment. Based on this assessment, full impairment loss on the Group's investment in Star Time Limited was recognised. The recoverable amount of the investment was determined based on the net asset position of the associate as at 31 December 2017.

Disposal of interests in Cosmic Hospitality China Limited

In September 2017, the Group disposed of its interests in Cosmic Hospitality China Limited for a consideration of HK$2.3 million which resulted in a gain of HK$487,000 to the Group.

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18. TRADE AND OTHER RECEIVABLES

	2017 HK$'000	2016 HK$'000
Third-party trade receivables	**31,113**	20,547
Less: Allowance for impairment loss	**(207)**	(385)
	30,906	20,162
Other receivables and deposits	**8,801**	3,230
Loans and receivables	**39,707**	23,392
Prepayments	**31,529**	6,462
Trade and other receivables	**71,236**	29,854
Non-current	**28,567**	–
Current	**42,669**	29,854
	71,236	29,854

(a) Ageing analysis

The ageing analysis of third-party trade receivables (net of allowance for impairment loss) based on invoice date is as follows:

	2017 HK$'000	2016 HK$'000
Less than 1 month	**19,431**	10,130
1 to 3 months	**8,545**	9,205
3 to 12 months	**2,930**	827
	30,906	20,162

The Group's credit policy is set out in note 32. Trade receivables are due within 1 month from the date of invoice.

(b) Impairment of trade receivables

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly.

The movements in the allowance for impairment loss during the year are as follows:

	2017 HK$'000	2016 HK$'000
At 1 January	**385**	147
(Reversal)/Recognition of impairment loss	**(178)**	238
At 31 December	**207**	385

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18. TRADE AND OTHER RECEIVABLES (cont'd)

(c) Trade receivables that are not impaired

The ageing analysis of third-party trade receivables that are neither individually nor collectively considered to be impaired is as follows:

	2017 HK$'000	2016 HK$'000
Neither past due nor impaired	**7,717**	9,628
Less than 3 months overdue	**19,948**	8,766
3 to 12 months overdue	**2,279**	977
	22,227	9,743
	29,944	19,371

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

Receivables that were past due but not impaired relate to customers having a good payment track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

(d) Prepayment

Prepayments consist of professional fees of HK$27 million paid in advance to business consultants which provide advisory services on the new businesses of the Group.

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19. TRADING SECURITIES

	2017 HK$'000	2016 HK$'000
Equity securities (at market value)		
– Listed outside Hong Kong	**23,893**	59,683
– Unlisted	**23,184**	14,418
	47,077	74,101

The details of equity securities held by the Group are as follows:

	2017		2016	
	Number of shares held	Percentage shareholding	Number of shares held	Percentage shareholding
Millennium & Copthorne Hotels plc	**–**	**–**	1,152,031	0.35%
Grand Plaza Hotel Corporation	**198,765**	**0.37%**	198,765	0.37%
Fanhua Inc.	**139,210**	**0.01%**	139,210	0.01%
Cathay Investment Fund	**1,800,000**	**2.88%**	1,800,000	2.88%

The historical investment cost of the above equity securities is as follows:

	Millennium & Copthorne Hotels plc HK$'000	Grand Plaza Hotel Corporation HK$'000	Fanhua Inc. HK$'000	Cathay Investment Fund HK$'000	Total HK$'000
As at 31 December 2017					
Investment cost	**–**	**869**	**29,302**	**14,550**	**44,721**
As at 31 December 2016					
Investment cost	33,316	869	29,302	14,550	78,037

Notes to the Financial Statements

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19. TRADING SECURITIES (cont'd)

The movements in the fair value of the above equity securities during the year are as follows:

	Millennium & Copthorne Hotels plc HK$'000	Grand Plaza Hotel Corporation HK$'000	Fanhua Inc. HK$'000	Cathay Investment Fund HK$'000	Total HK$'000
Fair value as at 1 January 2016	61,311	583	10,053	13,932	85,879
Unrealised valuation gain/(loss)	(452)	(92)	(1,121)	486	(1,179)
Unrealised foreign exchange gain/(loss)	(10,581)	(25)	7	–	(10,599)
Fair value as at 31 December 2016	**50,278**	**466**	**8,939**	**14,418**	**74,101**
Realised/Unrealised valuation gain	**2,384**	**(93)**	**14,400**	**8,766**	**25,457**
Unrealised foreign exchange gain	**–**	**–**	**181**	**–**	**181**
Disposed during the year	**(52,662)**	**–**	**–**	**–**	**(52,662)**
Fair value as at 31 December 2017	**–**	**373**	**23,520**	**23,184**	**47,077**

The dividends received from the Group's investment in trading securities are as follows:

	2017 HK$'000	2016 HK$'000
Millennium & Copthorne Hotels plc	**652**	819
Fanhua Inc.	**345**	–
Cathay Investment Fund	**–**	900
	997	1,719

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20. LOAN RECEIVABLES

During the year, the Company made two loans to third parties. One of the loans bears interest at rate of 12% per annum and is repayable within one year. It is secured by the pledge of properties owned by two individuals who have also extended personal guarantees in favour of the borrower. The remaining loan is unsecured and bears interest at rate of 10% per annum, and is repayable within one year.

21. CASH AND CASH EQUIVALENTS

(a) Cash and cash equivalents comprise:

	2017 HK$'000	2016 HK$'000
Deposits with banks and other financial institutions	**110,781**	272,167
Cash at bank and on hand	**24,076**	67,778
Cash and cash equivalents in the consolidated statement of financial position	**134,857**	339,945
Less: Cash pledged for interest-bearing borrowings (Note 23)	**(2,563)**	(2,156)
Cash and cash equivalents in the consolidated statement of cash flows	**132,294**	337,789

The weighted average effective interest rates per annum relating to cash and cash equivalents at the end of the reporting period for the Group is 1.856% (2016: 0.894%). Interest rates re-price within twelve months.

(b) Reconciliation of liabilities arising from financing activities

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

	Interest payable (included in trade and other payables) HK$'000	Interest bearing borrowings HK$'000 (Note 23)	Loan from non-controlling interests HK$'000 (Note 25)	Total HK$'000
At 1 January 2017	**89**	**29,701**	**2,908**	**32,698**
Changes from financing cash flows:				
Loan from non-controlling interests	**–**	**–**	**39,740**	**39,740**
Repayment of interest-bearing borrowings	**–**	**(880)**	**–**	**(880)**
Interest paid	**(1,231)**	**–**	**–**	**(1,231)**
Total changes from financing cash flows	**(1,231)**	**(880)**	**39,740**	**37,629**
Exchange adjustments	**2**	**206**	**139**	**347**
Other changes:				
Amortisation of capitalised transaction costs (Note 4)	**–**	**841**	**–**	**841**
Interest expenses on borrowings (Note 4)	**1,184**	**–**	**–**	**1,184**
At 31 December 2017	**44**	**29,868**	**42,787**	**72,699**

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22. TRADE AND OTHER PAYABLES

	2017 HK$'000	2016 HK$'000
Trade payables	**6,463**	4,986
Other payables and accrued charges	**22,582**	16,490
	29,045	21,476
Deferred income	**4,533**	6,452
	33,578	27,928

All of the trade and other payables are expected to be settled within one year.

Deferred income relates to revenue billed in advance.

Trade and other payables, excluding deferred income, have the following ageing analysis based on due date:

	2017 HK$'000	2016 HK$'000
Due within 1 month or on demand	**13,950**	16,438
Due 1 to 3 months	**3,941**	1,040
Due 3 to 12 months	**11,154**	3,998
	29,045	21,476

23. INTEREST-BEARING BORROWINGS

	2017 HK$'000	2016 HK$'000
Bank loans - secured	**29,868**	29,701
Repayable:		
– Within 1 year	**922**	719
– After 1 year but within 2 years	**951**	785
– After 2 years but within 5 years	**3,133**	2,609
– After 5 years	**24,862**	25,588
	28,946	28,982
	29,868	29,701

Notes to the Financial Statements

31 December 2017

23. INTEREST-BEARING BORROWINGS (cont'd)

Security

The Group's term loan is secured by:

- a first priority mortgage of Sheraton Chapel Hill Hotel, its improvements, equipment and fixtures with a carrying amount of HK$36.2 million (2016: HK$36.6 million) as at 31 December 2017 (Note 12);
- assignments of all rights and benefits to sale, lease, agreements, trademarks and insurance proceeds in respect of Sheraton Chapel Hill Hotel;
- pledge of monies held in specific bank accounts of HK$2.6 million (2016: HK$2.2 million) as at 31 December 2017 (Note 21); and
- guarantee by Richfield Hospitality, Inc ("RHI"), an indirect subsidiary of the Group.

Covenant

The Group's banking facilities are subjected to the fulfilment of covenants relating to certain Group's financial ratios, as are commonly found in lending arrangements with financial institutions. If the Group were to breach the covenants, the drawn down facilities would become payable on demand. The Group regularly monitors its compliance with these covenants. Further details of the Group's management of liquidity risk are set out in note 32. As at 31 December 2017, none of the covenants relating to the drawn down facilities had been breached.

Non-recourse Carveout Guarantees

At the balance sheet date, RHI and SWAN USA, Inc (the "Guarantors"), both being indirect subsidiaries of the Group, are guarantors for certain indebtedness relating to the Group's joint operation, joint venture and associate, as below:

a. RHI is a guarantor of indebtedness of the term loan entered into by Swan Carolina Investor, LLC and SFI Carolina TIC SPE, LLC for Sheraton Chapel Hill Hotel. The term guarantee expires on 6 May 2023.

b. RHI and Swan USA, Inc are guarantors of indebtedness of the term loans entered into by RBH Mezz, LLC and Rich Burlington Hotel, LLC, which are underlying investments of S-R Burlington Partners, LLC. The term loans have been refinanced during the year and are repayable on 9 December 2020.

c. RHI and SWAN USA, Inc were guarantors of indebtedness of the term loan entered into by the Group's joint venture, Richfield Syracuse Hotel Partners, LLC. The term guarantee was discharged on 16 May 2016 following the repayment of the loan by the joint venture.

Notes to the Financial Statements

31 December 2017

23. INTEREST-BEARING BORROWINGS (cont'd)

Non-recourse Carveout Guarantees (cont'd)

The above indebtedness are non-recourse in nature and the Group's liabilities are limited to the collaterals on which the individual loans are secured. The guarantees entered into by the Guarantors provide the lender with recourse for any losses and expenses arising from specific acts such as fraud, misappropriation of rents and intentional damages ("covenants"). The obligations of the Guarantors are to the extent which the collaterals are insufficient to meet the lender's losses and expenses. These guarantees do not impose liability on the Guarantors for any other event such as the non-payment of loan by the borrower. The maximum potential liability of the Group under the guarantees as at 31 December 2017 is HK$165.6 million (2016: HK$167.7 million).

The management is of the view that the possibility of violating the above covenants and triggering any cash outflow within the scope of the above guarantees is remote. In addition, the above indebtedness are non-recourse in nature and the carrying amount of the individual collateral is in excess of the respective outstanding loan amount.

24. DIVIDENDS RECEIVED IN EXCESS OF EARNINGS FROM EQUITY-METHOD ACCOUNTED JOINT VENTURE

	2017 HK$'000	2016 HK$'000
Dividends in excess of earnings	**227**	209

Details of the Group's net interest in the joint venture, which is accounted for using the equity method in the consolidated financial statements, are as follows:

				Proportion of ownership interest			
				2017		2016	
Name of joint venture/ Principal activities	Form of business structure	Place of incorporation and operation	Issued and paid up capital US$	Group's effective interest %	Held by subsidiary %	Group's effective interest %	Held by subsidiary %
RSF Syracuse Partners, LLC (Provision of hospitality related services)	Incorporated	USA	6,911,000	43	50	43	50

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24. DIVIDENDS RECEIVED IN EXCESS OF EARNINGS FROM EQUITY-METHOD ACCOUNTED JOINT VENTURE (cont'd)

Summarised financial information of RSF Syracuse Partners, LLC and reconciliation to the carrying amount in the consolidated financial statements, are disclosed below:

	2017 HK$'000	2016 HK$'000
Gross amounts of RSF Syracuse Partners, LLC's		
Current assets	**–**	178
Non-current assets	**–**	–
Current liabilities	**(453)**	(596)
Equity	**(453)**	(418)
Included in the above assets and liabilities:		
Cash and cash equivalents	**–**	178
Revenue	**–**	27,381
(Loss)/Profit for the year	**(16)**	39,117
Dividend received from RSF Syracuse Partners, LLC	**–**	248
Included in the above profit:		
Depreciation and amortisation	**–**	(3,323)
Interest expense	**–**	(1,700)
Reconciled to the Group's interest in RSF Syracuse Partners, LLC		
Gross amounts of net liabilities	**453**	418
Group's interest	**50%**	50%
Group's share of net liabilities, representing the carrying amount in the consolidated financial statements	**227**	209

Disposal of the hotel operated by RSF Syracuse Partners, LLC

On 16 May 2016, RSF Syracuse Partners, LLC disposed of its interests in Crowne Plaza Syracuse Hotel, New York, U.S. for a consideration of HK$117,870,000 which resulted in a gain of HK$19,560,000 to the Group in the previous year. The Group's share of the gain is recorded in the share of profit of a joint venture in the consolidated statement of profit or loss for the previous year.

25. LOANS FROM NON-CONTROLLING INTERESTS

The loans from non-controlling interests are unsecured and interest free, and are due for repayment over the period from February to August 2019.

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26. DEFERRED TAX LIABILITIES

(a) Deferred tax assets/(liabilities) recognised

The components of deferred tax assets/(liabilities) recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Note	Tax losses HK$'000	Depreciation allowances in excess of the related depreciation HK$'000	Others HK$'000	Total HK$'000
Deferred tax arising from:					
At 1 January 2016		7,231	2,759	193	10,183
Charged to profit or loss		(7,235)	(2,761)	(193)	(10,189)
Exchange adjustments		4	2	–	6
At 31 December 2016		–	–	–	–
At 1 January 2017		**–**	**–**	**–**	**–**
Acquired in business combinations	30	**–**	**–**	**(15,929)**	**(15,929)**
Exchange adjustments		**–**	**–**	**21**	**21**
At 31 December 2017		**–**	**–**	**(15,908)**	**(15,908)**

(b) Deferred tax assets not recognised

The following temporary differences have not been recognised:

	2017 HK$'000	2016 HK$'000
Tax losses	**104,995**	74,226
Other temporary differences	**(3,486)**	(916)
	101,509	73,310

Deferred tax assets have not been recognised in respect of unutilised tax losses and other temporary differences because it is not probable that future taxable profits will be available against which the Group can utilise the benefits.

Tax losses amounting to HK$10.7 million (2016: HK$Nil) have expiry dates between 1 to 5 years. Tax losses amounting to HK$88.5 million (2016: HK$60.1 million) have expiry dates of more than 5 years. The earliest expiry date is on 31 December 2022 and the latest expiry date is on 31 December 2037. The remaining tax losses amounting to HK$5.8 million (2016: HK$14.1 million) do not expire under the tax legislations of the respective jurisdiction.

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27. CAPITAL AND RESERVES

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

	Share capital HK$'000	Share premium HK$'000	Capital redemption reserve HK$'000	Revenue reserve HK$'000	Total HK$'000
The Company					
Balance at 1 January 2016	382,450	–	676	162,912	546,038
Changes in equity for 2016:					
Total comprehensive income for the year	–	–	–	(80,966)	(80,966)
Balance at 31 December 2016	382,450	–	676	81,946	465,072
The Company					
Balance at 1 January 2017	**382,450**	**–**	**676**	**81,946**	**465,072**
Changes in equity for 2017:					
Total comprehensive income for the year	**–**	**–**	**–**	**37,949**	**37,949**
Issue of ordinary shares related to business combinations	**16,530**	**20,663**	**–**	**–**	**37,193**
Balance at 31 December 2017	**398,980**	**20,663**	**676**	**119,895**	**540,214**

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27. CAPITAL AND RESERVES (cont'd)

(b) Share capital

(i) Authorised and issued share capital

	The Company			
	2017		**2016**	
	No. of shares ('000)	**HK$'000**	**No. of shares ('000)**	**HK$'000**
Authorised:				
Ordinary shares of HK$1 each	**2,720,615**	**2,720,615**	2,720,615	2,720,615
Ordinary shares, issued and fully paid:				
At 1 January	**382,450**	**382,450**	382,450	382,450
Issued in business combinations	**16,530**	**16,530**	–	–
At 31 December	**398,980**	**398,980**	382,450	382,450

During the year, the Company issued 16,530,000 ordinary shares at HK$3.06 per share as part of the purchase consideration for the acquisition of PRIP and its subsidiary (See Note 30). The difference between the par value and the fair value of the issued shares is classified as share premium.

The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

(ii) Purchase of own shares

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the years ended 31 December 2017 and 31 December 2016.

(c) Nature and purpose of reserves

The reserves of the Group and the Company comprise the following balances:

	Group		Company	
	2017	2016	**2017**	2016
	HK$'000	HK$'000	**HK$'000**	HK$'000
Share premium	**20,663**	–	**20,663**	–
Capital redemption reserve	**676**	676	**676**	676
Exchange reserve	**561**	(491)	**–**	–
Revenue reserve	**66,897**	52,020	**119,895**	81,946
	88,797	52,205	**141,234**	82,622

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27. CAPITAL AND RESERVES (cont'd)

(c) Nature and purpose of reserve (cont'd)

(i) Capital redemption reserve

Capital redemption reserve represents the nominal value of the shares repurchased which has been paid out of the distributable reserves of the Company.

(ii) Share premium

Share premium reserves represents the difference between the par value and the fair value of the issued shares.

(iii) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations and exchange differences on monetary items which form part of the Group's net investment in foreign operations, provided certain conditions are met. The reserve is dealt with in accordance with the accounting policy set out in note 1(w).

(d) Distributability of reserves

At 31 December 2017, the aggregate amount of reserves available for distribution to equity shareholders of the Company was HK$119,895,000 (2016: HK$81,946,000).

(e) Share award scheme

On 9 December 2016, the Company adopted a share award scheme (the "Share Award Scheme"), pursuant to which the Board may propose or determine the grant of the Company's shares (the "Award Shares") to any Directors, employees or third party service providers of the Group (the "Beneficiaries") as incentives and rewards so as (i) to provide the Beneficiaries with an opportunity to acquire a proprietary interest in the Company; (ii) to encourage and retain the Beneficiaries to work with the Company; and (iii) to provide additional incentive for the Beneficiaries to achieve performance goals, with a view to achieving the objectives of increasing the value of the Company and aligning the interests of the Beneficiaries directly to the shareholders of the Company through ownership of shares subject to such conditions as the Board may deem appropriate at its discretion.

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27. CAPITAL AND RESERVES (cont'd)

(e) Share award scheme (cont'd)

Determination of proposed Beneficiaries

The grant of Award Shares under the Share Award Scheme to any eligible person will be proposed by the Remuneration Committee and approved by the Board. The Board shall:

(i) consider whether to accept the proposal from the Remuneration Committee (with or without amendments); and

(ii) if the proposal is accepted (with or without amendments), select from among the proposed eligible person those persons who will be entitled to receive Award Shares under the Share Award Scheme and determine the number of Award Shares that each proposed Beneficiary will be entitled to be granted.

The selection of proposed Beneficiaries and determination of the number of Award Shares to which each proposed Beneficiary will be entitled will be made pursuant to a resolution of the Remuneration Committee.

Grant of Award Shares

The Company will notify each relevant proposed Beneficiary of his entitlement to Award Shares by way of a notice of award. The notice of award will specify the terms and conditions of the Award and the Share Award Scheme such as the number of Award Shares entitled, the vesting criteria and conditions, the vesting date and such other details as the Board may consider necessary.

Each grant of Award Shares under the Share Award Scheme to any connected person shall be subject to the prior approval of the independent non-executive Directors (excluding any independent non-executive Director who is a proposed Beneficiary). If any proposed grant of Award Shares to any connected person in relation to the Company or any of its subsidiaries under the Share Award Scheme would result in the total number of Award Shares being issued to such connected person during the 12-month period immediately preceding the date of such proposed grant exceeding 1% of the total issued share capital of the Company as at the date of such proposed grant, then such proposed grant must be approved by the shareholders of the Company in a general meeting at which such connected person and his associates shall abstain from voting. The Company will comply with the relevant requirements under Chapter 14A of the Listing Rules for any grant and issue of Shares to connected persons of the Company.

Maximum number of Award Share Grants

The aggregate number of Award Shares, whether they are new Shares to be allotted and issued by the Company or existing Shares to be purchased on-market by the Trustee, underlying all grants made pursuant to the Share Award Scheme shall not exceed in total 10% of the Company's issued share capital as at the adoption date.

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27. CAPITAL AND RESERVES (cont'd)

(e) Share award scheme (cont'd)

Rights attached to the Award Shares

Any Award Shares transferred to a Beneficiary pursuant to the Share Award Scheme will be subject to all the provisions of the Articles and will form a single class with the fully paid Shares in issue on the relevant date.

Shares awarded

The Board has resolved to award an aggregate of 37,862,500 shares ("Connected Award Shares") to Mr. Jiang Yulin, the Chairman of the Board and an Executive Director, on 9 December 2016. The issue and allotment of new shares to Mr. Jiang has been approved by the shareholders of the Company at its extraordinary general meeting ("EGM") on 29 March 2018.

37,862,500 shares will be issued and allotted by the Company to Mr. Jiang by six batches (subject to fulfilment of the vesting conditions):

Batch	Date	Number of shares to be vested
1	30 September 2018	3,786,250
2	31 March 2019	3,786,250
3	31 March 2020	7,572,500
4	31 March 2021	7,572,500
5	31 March 2022	7,572,500
6	31 March 2023	7,572,500

Vesting conditions

(i) the approval by the Independent Shareholders at the EGM in respect of the issue and allotment of the Connected Award Shares pursuant to the specific mandate obtained at the EGM;

(ii) the granting of the listing and dealing approval by the Hong Kong Stock Exchange in respect of the Connected Award Shares;

(iii) the achievement of (i) a growth rate of not less than 10% on the average closing market capitalization of the Company (the "Average Market Capitalization") throughout the first half of year 2018 based on the 30-days average closing market capitalization of the Company immediately preceding the date of adoption of the Share Award Scheme (the "Benchmark Market Capitalization"); (ii) a growth rate of not less than 15% on the average closing market capitalization of the Company throughout the second half of year 2018 based on the Benchmark Market Capitalization; and (iii) expected return on equity (the "Expected ROE") by the Company in each of the second to fifth year as recommended by the Remuneration Committee and approved by the Board from time to time, taking into account the economic environment and other appropriate factors as it thinks fit. The Remuneration Committee may also make recommendations on any adjustments for the forthcoming year for the Board's approval, taking into account the above factors. In any event, the Expected ROE will not be less than 12% (the "Minimum Expected ROE").

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27. CAPITAL AND RESERVES (cont'd)

(e) Share award scheme (cont'd)

In determining whether the growth rate of the average closing market capitalization of the Company (the "Average Cap. Growth") is met, the Company will calculate the Average Cap. Growth for each of the first half and second half of year 2018 based on the following formula:

For the first half of year 2018:

$$\text{Increase in market capitalization of the Company} = \frac{\text{Average Market Capitalization}}{\text{Benchmark Market Capitalization}} - 1 \times 100\%$$

Where,

(a) Average Market Capitalization shall be calculated by dividing the sum of market capitalization of the Company for the period commencing on 1 January 2018 and ending on 30 June 2018 (both dates inclusive) (the "2018 First Six-Month Period") over the total number of trading days for that period; and

(b) Benchmark Market Capitalization shall be calculated by the sum of market capitalization of the Company for the thirty (30) trading days immediately prior to the date on which the Share Award Scheme is adopted by the Board over the total number of trading days for that period.

The first batch of the Connected Award Shares with the vesting date on 30 September 2018 shall vest if the increase in market capitalization of the Company for the 2018 First Six-Month Period is not less than 10%.

For the second half of year 2018:

$$\text{Increase in market capitalization of the Company} = \frac{\text{Average Market Capitalization}}{\text{Benchmark Market Capitalization}} - 1 \times 100\%$$

Where,

(a) Average Market Capitalization shall be calculated by dividing the sum of market capitalization of the Company for the period commencing on 1 July 2018 and ending on 31 December 2018 (both dates inclusive) (the "2018 Second Six-Month Period") over the total number of trading days for that period; and

(b) Benchmark Market Capitalization shall be calculated by the sum of market capitalization of the Company for the thirty (30) trading days immediately prior to the date on which the Share Award Scheme is adopted by the Board over the total number of trading days for that period.

The second batch of the Connected Award Shares with the vesting date on 31 March 2019 shall vest if the increase in market capitalization of the Company for the 2018 Second Six-Month Period is not less than 15%.

In determining whether the Expected ROE is met, the Company will calculate the ROE of each year based on the following formula:

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27. CAPITAL AND RESERVES (cont'd)

(e) Share award scheme (cont'd)

$$\text{Expected ROE} = \frac{\text{Net Income}}{\text{Shareholders' Equity}}$$

Where,

(a) Net Income shall be the net profit before taxation, interest, amortization and extraordinary item(s) of non-recurring in nature as shown in the latest published audited consolidated financial results of the Group before the relevant vesting date; and

(b) Shareholders' Equity shall be the total equity attributable to equity shareholders of the Company as shown in the audited consolidated financial results of the Group published in the year preceding the relevant vesting date.

The remaining batches of the Connected Award Shares with the vesting dates on 31 March 2020, 2021, 2022 and 2023 respectively shall vest if the ROE for the respective year is not less than 12%.

Any change in the above vesting conditions (including the Minimum Expected ROE) will be subject to the approval by the Independent Shareholders.

(f) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of net debt-to-adjusted capital ratio. It is the Group's strategy to keep the net debt-to-adjusted capital ratio as low as feasible. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

Neither the Company nor its subsidiaries are subject to externally imposed capital requirements.

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28. NON-CONTROLLING INTERESTS

The following subsidiaries have non-controlling interests ("NCI") that are material to the Group:

Name	**Principal place of business**	**Operating Segment**	**Ownership interest held by NCI**	
			2017	**2016**
SWAN subgroup*	United States of America	Hospitality	**15%**	15%
PRIP subgroup**	Hong Kong	Healthcare	**49%**	–

* SWAN subgroup consists of SWAN Holdings Limited, its subsidiaries, joint arrangements and associates (collectively known as "SWAN").

** PRIP subgroup consists of PRIP Communications Limited and its wholly-owned subsidiary, DIAM Holdings Co. Ltd., incorporated in South Korea.

The summarised financial information for the above subsidiaries are prepared in accordance with HKFRS, modified for fair value adjustments on acquisition and before any inter-company elimination.

	SWAN HK$'000	**PRIP HK$'000**	**Total HK$'000**
2017			
Current assets	**37,215**	**8,995**	
Non-current assets	**226,848**	**148,530**	
Current liabilities	**(27,899)**	**(1,938)**	
Non-current liabilities	**(71,960)**	**(15,911)**	
Net assets	**164,204**	**139,676**	
NCI of subsidiaries	**6,815**	**–**	
Net assets attributable to equity shareholders	**171,019**	**139,676**	
Net assets attributable to NCI	**25,653**	**68,441**	
Add: NCI of subsidiaries (as above)	**(6,815)**	**–**	
Total net assets attributable to NCI	**18,838**	**68,441**	**87,279**
Revenue	**105,951**	**6,669**	
Loss for the year	**(37,348)**	**(742)**	
Loss attributable to NCI of subsidiaries	**12,164**	**–**	
Loss for the year attributable to equity shareholders	**(25,184)**	**(742)**	
Loss for the year attributable to NCI	**(3,777)**	**(364)**	
Add: Loss attributable to NCI of subsidiaries (as above)	**(12,164)**	**–**	
Total loss for the year attributable to NCI	**(15,941)**	**(364)**	**(16,305)**
Cash flows (used in)/generated from operating activities	**(20,685)**	**5,108**	**(15,577)**
Cash flows (used in)/generated from investing activities	**(113,226)**	**3**	**(113,223)**
Cash flows generated from financing activities	**37,881**	**790**	**38,671**

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28. NON-CONTROLLING INTERESTS (cont'd)

	SWAN HK$'000	PRIP HK$'000	Total HK$'000
2016			
Current assets	137,094	–	
Non-current assets	119,762	–	
Current liabilities	(24,510)	–	
Non-current liabilities	(32,099)	–	
Net assets	200,247	–	
NCI of subsidiaries	(5,354)	–	
Net assets attributable to equity shareholders	194,893	–	
Net assets attributable to NCI	29,234	–	
Add: NCI of subsidiaries (as above)	5,354	–	
Total net assets attributable to NCI	34,588	–	34,588
Revenue	96,718	–	
Loss for the year	(6,792)	–	
Loss attributable to NCI of subsidiaries	3,213	–	
Loss for the year attributable to equity shareholders	(3,579)	–	
Loss for the year attributable to NCI	(536)	–	
Add: Loss attributable to NCI of subsidiaries (as above)	(3,213)	–	
Total loss for the year attributable to NCI	(3,749)	–	(3,749)
Cash flows used in operating activities	(6,163)	–	(6,163)
Cash flows used in investing activities	(44,184)	–	(44,184)
Cash flows generated from financing activities	823	–	823

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29. PRINCIPAL SUBSIDIARIES

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

			Proportion of Ownership Interest					
			2017			2016		
Company name/ Principal activities	Place of incorporation and operation	Particulars of issued and paid up capital	Group's effective interest %	Held by Company %	Held by Subsidiary %	Group's effective interest %	Held by Company %	Held by Subsidiary %
CES Capital Limited (Investment holding)	British Virgin Islands	1 share of US$1 each	100	100	–	100	100	–
SWAN Holdings Limited (Investment holding)	Bermuda	33,345,333 shares of US$1 each	85	85	–	85	85	–
SWAN USA, Inc. (Investment holding)	United States of America	100 common stocks of US$0.01 each	85	–	100	85	–	100
Richfield Hospitality Inc. (Investment holding and provision of hospitality related services)	United States of America	100 common stocks of US$1,000.01 each	85	–	100	85	–	100
Sceptre Hospitality Resources, LLC. (Provision of hotel reservation services)	United States of America	100 common stocks of US$0.01 each	43	–	51	43	–	51
PRIP Communications Limited (Provision of healthcare related services)	Hong Kong	1,333,172 shares	51	51	–	–	–	–
DIAM Holdings Co., Ltd. (Provision of healthcare related services)	Korea	40,000 shares of KRW5,000 each	51	–	100	–	–	–
Cross-Tinental S.L. (Provision of reservation services)	Barcelona	30,000 shares of EUR1 each	43	–	100	–	–	–

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30. ACQUISITION OF SUBSIDIARIES

(a) *PRIP Communications Limited ("PRIP") and its subsidiary*

On 31 August 2017, the Group through acquisition and subscription, acquired 51% of the shares and voting interests in PRIP. Following the acquisition, the Group obtained control of PRIP and its wholly-owned subsidiary, DIAM Holdings Co Ltd.

For the four months ended 31 December 2017, PRIP contributed revenue of HK$6.7 million and profit of HK$1.8 million to the Group's results. If the acquisition had occurred on 1 January 2017, management estimates that consolidated revenue would have been HK$20.0 million and consolidated profit of the year would have been HK$5.4 million. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2017.

Fair value of the consideration based on a provisional basis and the amount of non-controlling interest in the acquiree

The following table summarises the acquisition-date fair value of each major class of consideration based on a provisional basis and the amount of non-controlling interest in the acquiree:

	HK$'000
Cash	118,446
Equity instruments issued (16,530,000 ordinary shares)	37,193
Dividend right forgone by non-controlling shareholders	(12,632)
Revenue and profit guarantee from non-controlling shareholders	(488)
Put and call option	16,787
Fair value of the consideration	159,306
Non-controlling interests	68,894
Total	228,200

The fair value of the ordinary shares issued was based on the market price of the quoted shares of the Company at 31 August 2017 of HK$2.25 per share.

The fair values of the dividend right forgone by non-controlling shareholders of HK$12,632,000 and revenue and profit guarantee from non-controlling shareholders of HK$488,000 are classified as non-current other financial assets in the statement of financial position as at 31 December 2017.

The fair value of the put and call option of HK$16,787,000 is classified as non-current other financial liabilities in the statement of financial position as at 31 December 2017.

Notes to the Financial Statements

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30. ACQUISITION OF SUBSIDIARIES (cont'd)

(a) *PRIP Communications Limited ("PRIP") and its subsidiary (cont'd)*

Acquisition-related costs

The Group incurred acquisition-related costs of HK$3,918,000 on legal fees and due diligence costs. These costs have been included in "administrative expenses".

Identifiable assets acquired and liabilities assumed based on a provisional basis

The following table summarises the recognised amounts of assets acquired and liabilities assumed at the date of acquisition based on a provisional basis:

	HK$'000
Intangible assets – trademarks	126,723
Intangible assets – customer contracts	27,110
Property, plant and equipment	121
Trade and other receivables	2,272
Cash	684
Trade and other payables	(380)
Deferred tax liabilities	(15,929)
Total identifiable net assets	140,601

Measurement of fair values

The valuation techniques used for measuring the fair value of material assets acquired were as follows:

Assets acquired	**Valuation technique**
Intangible assets – trademarks	Discounted cash flow method which involves the estimation of cash flows from royalty income arising from licensing of trademark at the date of acquisition based on the terms of the trademark licensing agreement and discounting the cash flows with a risk adjusted discount rate.
Intangible assets – customer contracts	Discounted cash flow method which involves the estimation of cash flows from the existing customer contracts at the date of acquisition based on the terms of the contracts and discounting the cash flows with a risk adjusted discount rate.

The fair value of PRIP's intangible assets has been determined provisionally pending the completion of an independent valuation.

If new information obtained within one year from the date of acquisition about facts and circumstances that existed at the date of acquisition identifies adjustments to the above amounts, or any additional provisions that existed at the date of acquisition, then the accounting for the acquisition will be revised.

Notes to the Financial Statements

31 December 2017

30. ACQUISITION OF SUBSIDIARIES (cont'd)

(a) PRIP Communications Limited ("PRIP") and its subsidiary (cont'd)

Goodwill

Goodwill arising from the acquisition has been recognised as follows:

	HK$'000
Total consideration transferred	159,306
NCI, based on their proportionate interest in the recognised amounts of the assets and liabilities of the acquiree	68,894
Fair value of identifiable net assets	(140,601)
Goodwill	87,599

The goodwill is attributable mainly to the healthcare business, and is not expected to be deductible for tax purposes.

(b) Cross-Tinental S. L. ("CTSL")

On 17 August 2017, the Group acquired 100% of the shares and voting interests in CTSL and obtained control of CTSL. CTSL is incorporated in Spain.

For the four months ended 31 December 2017, CTSL contributed revenue of HK$3.0 million and loss of HK$0.3 million to the Group's results. If the acquisition had occurred on 1 January 2017, management estimates that the consolidated revenue would have been HK$9.0 million and consolidated profit of the year would have been HK$0.9 million. In determining these amounts, management has assumed that the fair value adjustments, determined provisionally, that arose on the date of acquisition would have been the same if the acquisition had occurred on 1 January 2017.

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30. ACQUISITION OF SUBSIDIARIES (cont'd)

(b) Cross-Tinental S. L. ("CTSL") (cont'd)

Fair value of the consideration based on a provisional basis

The following table summarises the acquisition-date fair value of each major class of consideration transferred based on a provisional basis:

	HK$'000
Cash	4,581
Variable consideration – to be settled through cash	1,719
Total consideration transferred	6,300

The variable consideration is dependent on the level of revenues to be generated for the next 2 years from the date of acquisition from the existing customers at the date of acquisition. The variable consideration is payable at the end of 2 years from the date of acquisition. The fair value of the variable consideration of HK$1,719,000 is classified as deferred consideration in the statement of financial position as at 31 December 2017.

The Group has agreed to pay the vendor of CTSL additional consideration ("contingent consideration") if the identified existing contracts stated in the sale and purchase agreement are renewed or the identified new contracts stated in the sale and purchase agreement are obtained. The additional consideration is determined based on the agreed rate stated in the sale and purchase agreement. The Group has determined the fair value of contingent consideration to be Nil as at 31 December 2017.

Acquisition-related costs

The Group incurred acquisition-related costs of HK$22,000 on legal fees and due diligence costs. These costs have been included in "administrative expenses".

Notes to the Financial Statements

31 December 2017

30. ACQUISITION OF SUBSIDIARIES (cont'd)

(b) Cross-Tinental S. L. ("CTSL") (cont'd)

Identifiable assets acquired and liabilities assumed based on a provisional basis

The following table summarises the recognised amounts of assets acquired and liabilities assumed at the date of acquisition based on a provisional basis:

	HK$'000
Intangible assets – customer contracts	5,686
Property plant and equipment	12
Trade and other receivables	1,142
Cash	454
Trade and other payables	(994)
Total identifiable net assets	6,300

Measurement of fair values

The valuation techniques used for measuring the fair value of material assets acquired were as follows:

Assets acquired	Valuation technique
Intangible assets - customer contracts	Discounted cash flow method which involves the estimation of cash flows from the existing customer contracts at the date of acquisition based on the terms of the contracts and discounting the cash flows with a risk adjusted discount rate.

The fair value of CTSL's intangible assets has been determined provisionally pending the finalisation of valuation by the management.

If new information obtained within one year from the date of acquisition about facts and circumstances that existed at the date of acquisition identifies adjustments to the above amounts, or any additional provisions that existed at the date of acquisition, then the accounting for the acquisition will be revised.

(c) Summary of cash flows arising from the acquisition of the above subsidiaries:

	PRIP and its wholly-owned subsidiary HK$'000	CTSL HK$'000	Total HK$'000
Cash consideration paid	118,446	4,581	123,027
Less: Cash acquired	(684)	(454)	(1,138)
Net cash outflow for the acquisition of subsidiaries	117,762	4,127	121,889

Notes to the Financial Statements

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31. FINANCIAL INSTRUMENTS BY CATEGORY

An analysis of the Group's financial instruments is set out below:

	Note	Loan and receivables HK$'000	Financial assets at fair value through profit or loss HK$'000	Available-for-sale financial assets HK$'000	Liabilities at amortised cost HK$'000	Financial liabilities at fair value through profit or loss HK$'000
2017						
Assets						
Available-for-sale financial assets	15	**–**	**–**	**18,321**	**–**	**–**
Other financial assets	30	**–**	**13,120**	**–**	**–**	**–**
Trade and other receivables, excluding prepayments	18	**39,707**	**–**	**–**	**–**	**–**
Trading securities	19	**–**	**47,077**	**–**	**–**	**–**
Loan receivables	20	**113,408**	**–**	**–**	**–**	**–**
Cash and cash equivalents	21	**134,857**	**–**	**–**	**–**	**–**
		287,972	**60,197**	**18,321**	**–**	**–**
Liabilities						
Trade and other payables, excluding deferred income	22	**–**	**–**	**–**	**29,045**	**–**
Interest-bearing borrowings	23	**–**	**–**	**–**	**29,868**	**–**
Loan from non-controlling interests	25	**–**	**–**	**–**	**42,787**	**–**
Deferred consideration	30	**–**	**–**	**–**	**–**	**1,719**
Other financial liabilities	30	**–**	**–**	**–**	**–**	**16,787**
		–	**–**	**–**	**101,700**	**18,506**
2016						
Assets						
Available-for-sale financial assets	15	–	–	18,179	–	–
Trade and other receivables, excluding prepayments	18	23,392	–	–	–	–
Trading securities	19	–	74,101	–	–	–
Cash and cash equivalents	21	339,945	–	–	–	–
		363,337	74,101	18,179	–	–
Liabilities						
Trade and other payables, excluding deferred income	22	–	–	–	21,476	–
Interest-bearing borrowings	23	–	–	–	29,701	–
Loan from non-controlling interests	25	–	–	–	2,908	–
		–	–	–	54,085	–

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32. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. The Group is also exposed to equity price risk arising from its equity investments in other entities and movements in its own equity share price.

The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

(a) Credit risk

The Group's credit risk is primarily attributable to trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

In respect of trade and other receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due within 1 month from the date of invoice. Debtors with balances that are more than 3 months past due are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers for trade and other receivables.

Investments comprise only liquid securities and are transacted with counterparties that have a credit rating equal to or better than the Group. Given their high credit ratings, management does not expect any investment counterparty to fail to meet its obligations.

Bank deposits placed with a financial institution have maturity dates ranging from one to two (2016: one to two) months from the end of the reporting period. Given its high credit rating, management does not expect the financial institution to fail to meet its obligations.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk but to a lesser extent. At the end of the reporting period, 40% (2016: 17%) and 51% (2016: 47%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively within the hospitality business segment and money lending and related business segments.

At the reporting date, the Group has significant concentration of credit risk on its loan receivables from two borrowers arising from its money lending and related business segment. Except for these receivables, there was no significant concentration of credit risk.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial position after deducting any impairment allowance.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade receivables are set out in note 18.

Notes to the Financial Statements

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32. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (cont'd)

(b) Equity price risk

The Group is exposed to equity price changes arising from equity investments classified as trading securities (Note 19).

The Group's listed equity investments are listed on NASDAQ Stock Market and The Philippines Stock Exchange, Inc. Decisions to buy or sell trading securities are based on daily monitoring of the performance of individual securities compared to other industry indicators, as well as the Group's liquidity needs.

At 31 December 2017, a 10% (2016: 4%) increase in the underlying equity prices of the equity investments listed on the NASDAQ Stock Market at the end of the reporting period would decrease the Group's loss after tax and increase the Group's revenue reserve by approximately HK$2,352,000 (2016: HK$356,000).

A 10% (2016: 4%) decrease in the underlying equity prices of the equity investments listed on the NASDAQ Stock Market at the end of the reporting period, with all other variables held constant, would have an equal but opposite effect on the Group's loss after tax and revenue reserve.

In respect of the Group's equity investment listed on The Philippines Stock Exchange, Inc., based on the historical trend analysis, management does not expect significant equity price movements on this investment and hence, it is not expected to have any significant impact on the Group's loss after tax, revenue reserve and other components of consolidated equity, assuming that all other variables remain constant.

The Group also holds investments in unlisted marketable equity mutual funds.

At 31 December 2017, a 10% (2016: 4%) increase in the net asset value of the Group's investment in unlisted marketable equity mutual funds at the end of the reporting period would decrease the Group's loss after tax and increase the Group's revenue reserve by approximately HK$ 2,318,000 (2016: HK$577,000).

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32. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (cont'd)

(b) Equity price risk (cont'd)

A 10% (2016: 4%) decrease in the net asset value of the unlisted marketable equity mutual funds at the end of the reporting period, with all other variables held constant, would have had the equal but opposite effect on the Group's loss after tax and revenue reserve.

The sensitivity analysis has been determined assuming that the reasonably possible changes in stock prices, net asset values or other risk variables had occurred at the end of the reporting period and had been applied to the exposure to equity price risk in existence at that date. The stated changes represent management's assessment of reasonably possible changes in the relevant stock price, net asset value or the relevant risk variables over the period until the next annual end of the reporting period. The analysis is performed on the same basis for 2016.

(c) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses. The Group's policy is to regularly monitor its liquidity requirements, to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities to meet its liquidity requirements in the short and longer term.

Except for the interest-bearing borrowings, the total contractual undiscounted cash flows of the Group's non-derivative financial liabilities are the same as their carrying amounts as their remaining contractual maturities are within one year.

The following table shows the remaining contractual maturities at the end of the reporting period of the Group's long-term non-derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the end of the reporting period) and the earliest date the Group can be required to pay:

	Contractual undiscounted cash outflows				
	Within 1 year or on demand HK$'000	More than 1 year but less than 5 years HK$'000	After 5 years HK$'000	Total HK$'000	Carrying amount HK$'000
Non-derivative contractual liabilities					
2017					
Interest-bearing borrowings	**(2,176)**	**(8,702)**	**(25,297)**	**(36,175)**	**(29,868)**
Loan from non-controlling interests	**–**	**(42,787)**	**–**	**(42,787)**	**(42,787)**
Deferred consideration	**–**	**(1,719)**	**–**	**(1,719)**	**(1,719)**
	(2,176)	**(53,208)**	**(25,297)**	**(80,681)**	**(74,374)**
2016					
Interest-bearing borrowings	(2,159)	(8,635)	(27,261)	(38,055)	(29,701)
Loan from non-controlling interests	–	(2,908)	–	(2,908)	(2,908)
	(2,159)	(11,543)	(27,261)	(40,963)	(32,609)

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32. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (cont'd)

(d) Interest rate risk

The Group's interest rate risk arises primarily from its interest-bearing borrowings which are pegged at fixed rates.

The weighted average effective interest rates per annum relating to cash and cash equivalents at the end of the reporting period is set out in note 21.

The weighted average effective interest rates per annum relating to the borrowings at the end of the reporting period is 4.21% (2016: 4.21%).

(e) Currency risk

The Group is exposed to foreign currency risk through deposits and withdrawals of fixed deposits, sales and purchases of the trading securities, and loan receivables that are denominated in a currency other than the functional currency of the operations to which they relate. The currencies giving rise to these risks are mainly the Sterling Pound, Singapore Dollar, Philippine Peso, Renminbi, South Korean Won and US Dollar.

When necessary, the Group uses forward exchange contracts to hedge its specific currency risks. However, forward exchange contracts that do not qualify for hedge accounting are accounted for as trading instruments. As at the reporting date, the Group had no outstanding forward exchange contracts.

(i) Recognised assets and liabilities

In respect of trade receivables and payables held in currencies other than the functional currency of the operations to which they relate, the Group ensures that the net exposure is kept to an acceptable level.

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32. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (cont'd)

(e) Currency risk (cont'd)

(ii) Exposure to foreign currency risk

The following table details the Group's exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the operations to which they relate to. For presentation purposes, the amounts of the exposure are shown in Hong Kong dollars, translated using the exchange rate ruling at the end of the reporting period.

	Sterling Pound HK$'000	Singapore Dollar HK$'000	Philippine Peso HK$'000	Renminbi HK$'000	South Korean Won HK$'000	US Dollar HK$'000
2017						
Trading securities	**–**	**–**	**373**	**–**	**–**	**23,520**
Cash and cash equivalents	**65**	**269**	**–**	**46,699**	**407**	**65,586**
Loan receivables	**–**	**–**	**–**	**11,899**	**–**	**101,509**
Trade and other receivables	**–**	**–**	**–**	**12,306**	**–**	**2,491**
Trade and other payables	**–**	**(600)**	**–**	**(584)**	**–**	**–**
Overall exposure arising from recognised assets and liabilities	**65**	**(331)**	**373**	**70,320**	**407**	**193,106**
2016						
Trading securities	50,277	–	466	–	–	8,938
Cash and cash equivalents	1,011	1,555	–	52,031	–	176,580
Trade and other payables	–	(504)	–	–	–	–
Overall exposure arising from recognised assets and liabilities	51,288	1,051	466	52,031	–	185,518

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31 December 2017

32. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (cont'd)

(e) Currency risk (cont'd)

(iii) Sensitivity analysis

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 the Group's exposure to currency risk for financial instruments in existence at that date.

A 10% (2016: 10%) strengthening of the following foreign currencies against the functional currency of each of the Group's entities at the end of the reporting period would impact the Group's loss after tax and revenue reserve by the amounts shown below. There is no impact on the other components of consolidated equity. The analysis assumes that all other variables, in particular, interest rates, remain constant.

	Decrease/ (Increase) in loss after tax and increase in revenue reserve 2017 HK$'000	**Decrease in loss after tax and increase in revenue reserve 2016 HK$'000**
Sterling Pound	**7**	5,129
Singapore Dollar	**(33)**	105
Philippine Peso	**37**	47
Renminbi	**7,032**	5,203
South Korean Won	**41**	–
US Dollar	**19,311**	18,552

A 10% (2016: 10%) weakening of the above currencies against the functional currency of each of the Group's entities at the end of the reporting period would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables, in particular, interest rates, remain constant.

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual end of the reporting period. In this respect, it is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would be materially unaffected by any changes in movement in value of the United States dollar against other currencies. Results of the analysis as presented in the above table represent the effect of the Group's loss after tax and revenue reserve measured in the respective foreign currencies, translated into Hong Kong dollar at the exchange rate ruling at the end of the reporting period for presentation purposes. The analysis is performed on the same basis for 2016.

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32. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (cont'd)

(f) Fair value measurement

(i) Financial instruments measured at fair value

The following table presents the carrying value of financial instruments measured at fair value at the end of the reporting period across the three levels of the fair value hierarchy defined in HKFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of inputs used in the valuation techniques as follows:

- Level 1 valuations: fair values measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 valuations: fair values measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.
- Level 3 valuations: fair value measured using significant unobservable inputs.

		Fair value measurements as at 31 December 2017 categorised into				Fair value measurements as at 31 December 2016 categorised into		
	Fair value at 31 December 2017 HK$'000	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Fair value at 31 December 2016 HK$'000	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000
Recurring fair value measurements								
Asset:								
Equity securities held for trading:								
– Listed	**23,893**	**23,893**	**–**	**–**	59,683	59,683	–	–
– Unlisted	**23,184**	**–**	**–**	**23,184**[1]	14,418	–	–	14,418*
Other financial assets	**13,120**	**–**	**–**	**13,120**[2]	–	–	–	–
Deferred consideration	**(1,719)**	**–**	**–**	**(1,719)**[3]				
Other financial liabilities	**(16,787)**	**–**	**–**	**(16,787)**[4]	–	–	–	–
	41,691	**23,893**	**–**	**17,798**	74,101	59,683	–	14,418

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32. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (cont'd)

(f) Fair value measurement (cont'd)

(i) Financial instruments measured at fair value (cont'd)

[1] The fair value of the unlisted held-for-trading equity securities is determined based on the net asset value of the fund, which had underlying unlisted investments categorised as Level 3 in the fair value hierarchy. The fair value of such underlying investments is determined based on inputs such as contractual agreements, current and projected operating performance, rounds of financing and third-party transactions, discounted cash flow analysis and market-based information, including comparable company transactions, trading multiples and changes in market outlook, among other factors.

[2] Other financial assets comprise dividend right foregone by non-controlling shareholders and revenue and profit guarantees from non-controlling shareholders. The fair value of the dividend right foregone is determine based on the discounted cash flows of future expected dividends to be foregone by the non-controlling shareholders. The fair value of the revenue and profit guarantee is determined based on the discounted cash flows of the expected compensation for each guaranteed period taking into consideration the probability of achieving the guaranteed revenue and profit for each guaranteed period.

[3] The fair value of the deferred consideration is determined based on the expected additional consideration payable taking into consideration the level of revenues expected to be generated from the existing customers at the date of acquisition for the next 2 years from that date.

[4] Other financial liabilities comprise the fair value of put and call option. The fair value of the put and call option is determined using Black-Scholes Option Pricing Model.

During the years ended 31 December 2017 and 31 December 2016, there were no transfers between levels.

The movements in the Level 3 financial instruments measured at fair value are as follows:

	Unlisted equity securities HK$'000	Other financial assets HK$'000	Deferred consideration HK$'000	Other financial liabilities HK$'000
At 1 January 2016	13,932	–	–	–
Net unrealised gain recognised in profit or loss	486	–	–	–
At 31 December 2016	14,418	–	–	–
At 1 January 2017	**14,418**	**–**	**–**	**–**
Net unrealised gain recognised in profit or loss	**8,766**	**–**	**–**	**–**
Arising from business combinations	**–**	**13,120**	**(1,719)**	**(16,787)**
At 31 December 2017	**23,184**	**13,120**	**(1,719)**	**(16,787)**

The fair value gain or loss of the unlisted equity securities for the period recognised in profit or loss is presented in "other net gains/(losses)" in the consolidated statement of profit or loss.

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31 December 2017

32. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (cont'd)

(f) Fair value measurement (cont'd)

(i) Financial instruments measured at fair value (cont'd)

Although the Group believes that its estimates of fair values are appropriate, the use of different methodologies or assumptions could lead to different measurements of fair values. For fair value measurement in Level 3, changing one or more of the assumptions used to reasonably possible alternative assumptions would have the following effects:

Type	Valuation method	Significant unobservable inputs	Inter-relationship between unobservable inputs and fair value measurement
Unlisted equity securities	Net assets value	Net asset value of the fund	The fair value increases as the net asset value of the fund increases
Other financial assets – dividend right forgone by non-controlling shareholders	Discounted cash flows	Discount rate	The fair value increases as the discount rate decreases
Other financial assets – revenue and profit guarantees from non-controlling shareholders	Discounted cash flows	Discount rate	The fair value increases as the discount rate decreases
Deferred consideration	Discounted cash flows	Discount rate	The fair value increases as the discount rate decreases.
Other financial liabilities – put and call option	Black-Scholes Option Pricing Model	Risk-free rate, volatility rate	Option price increases when volatility rate increases. Call option price increases and put option price decreases when risk-free rate increases.

Notes to the Financial Statements

31 December 2017

32. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (cont'd)

(f) Fair value measurement (cont'd)

(ii) Financial instruments not measured at fair value but for which the fair value is disclosed.

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2017 and 31 December 2016 except for available-for-sale equity securities and fixed rate borrowings.

Fair value information has not been disclosed for the Group's available-for-sale equity securities that are carried at cost less impairment loss of HK$18.3 million (2016: HK$18.2 million) because fair value cannot be measured reliably. These equity securities represent the capital contribution in a fund that is not quoted on any active market. The Group does not intend to dispose of this investment in the foreseeable future.

The carrying amounts, fair values and the level of fair value hierarchy of the fixed rate borrowings are as follows:

			Fair value measurements categorised into		
	Carrying amounts HK$'000	Fair value HK$'000	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000
2017	**(29,868)**	**(29,678)**	**–**	**(29,678)**	**–**
2016	(29,701)	(29,740)	–	(29,740)	–

The fair value is estimated as the present value of future cash flows, discounted at current market interest rates for similar financial instruments. The interest rate used is as follows:

	2017	2016
Fixed rate borrowings	**4.00%**	4.40%

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33. MATERIAL RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere, there were the following material related party transactions entered into on terms agreed between the parties during the year:

	2017 HK$'000	2016 HK$'000
Business venture in which a non-controlling shareholder of a subsidiary is the owner		
Income received from trademark licensing	**2,695**	–
Income received from provision of procurement, marketing and management services	**3,974**	–
Joint operation		
Income received from the provision of hospitality and other related services	**549**	845
Joint venture		
Income received from the provision of hospitality and other related services	**–**	5,211

The related party transactions in respect of the income from trademark licensing and provision of procurement, marketing and management services to a business venture in which a non-controlling shareholder of a subsidiary is the owner constitute continuing connected transactions as defined in Chapter 14A of the Listing Rules. The disclosures required by Chapter 14A of the Listing Rules are provided in pages 31 to 32 of the Directors' Report.

Key management personnel remuneration

Remuneration for the key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 6 and certain of the highest paid employees as disclosed in note 7, is as follows:

	2017 HK$'000	2016 HK$'000
Short-term employee benefits	**29,767**	13,266

Total remuneration is included in the administrative expenses.

34. COMMITMENTS

At 31 December 2017 and 31 December 2016, the total future minimum lease payments under non-cancellable operating leases payable are as follows:

	2017 HK$'000	2016 HK$'000
Within 1 year	**4,136**	3,684
After 1 year but within 5 years	**7,917**	7,605
After 5 years	**20,678**	6,336
	32,731	17,625

The leases typically run for an initial period of between one to ten (2016: one to ten) years. One of the leases includes an option to renew the lease on expiry. The leases do not include any contingent rental.

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35. COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	Note	2017 HK$'000	2016 HK$'000
Non-current assets			
Property, plant and equipment		**643**	801
Trade and other receivables		**44,408**	18,181
Interests in subsidiaries		**351,092**	195,860
Total non-current assets		**396,143**	214,842
Current assets			
Trading securities		**47,077**	74,101
Trade and other receivables		**25,074**	3,535
Loan receivables		**113,408**	–
Cash and cash equivalents		**115,689**	232,946
		301,248	310,582
Current liabilities			
Trade and other payables		**(154,855)**	(60,352)
Provision for taxation		**(2,322)**	–
		(157,177)	(60,352)
Net current assets		**144,071**	250,230
Total assets less current liabilities		**540,214**	465,072
NET ASSETS		**540,214**	**465,072**
CAPITAL AND RESERVES	27		
Share capital		**398,980**	382,450
Share premium		**20,663**	—
Reserves		**120,571**	82,622
TOTAL EQUITY		**540,214**	**465,072**

Approved and authorised for issue by the board of directors on 25 April 2018.

Jiang Yulin *Chairman*	**Zhang Xian** *Chief Executive Officer*

Notes to the Financial Statements

31 December 2017

36. IMMEDIATE AND ULTIMATE HOLDING COMPANIES

On 19 July 2016, the previous immediate holding company, CDL, through its wholly owned subsidiaries, entered into a Share Purchase Agreement with China Tian Yuan Manganese Limited ("China Tian Yuan") to sell 200,854,743 shares of the Company (the "Sale Shares") to China Tian Yuan for a total consideration of HK$566.4 million. The Sale Shares represent a controlling stake of approximately 52.52% of the entire share capital in the Company.

Following the completion of the sale and purchase of shares on 26 July 2016, Hong Leong Investment Holdings Pte. Ltd. and CDL ceased to be the ultimate and immediate holding companies, respectively. With effect from that date, Ningxia Tianyuan Manganese Industry Co., Ltd., a company incorporated in the Cayman Island becomes the ultimate holding company and China Tian Yuan Manganese Limited, a company incorporated in the People's Republic of China, becomes the immediate holding company.

37. ACCOUNTING ESTIMATES AND JUDGEMENTS

Note 14 and 30 contains information about the assumptions and the risk factors relating to impairment of goodwill and acquisitions entered into during the year, respectively.

38. NON-ADJUSTING EVENT AFTER THE REPORTING PERIOD

At the Extraordinary General Meeting held on 29 March 2018, the shareholders of the Company approved a special mandate for the allotment and issuance of 37,862,500 new shares to Mr. Jiang Yulin, the Chairman of the Board and Executive Director of the Company.

39. COMPARATIVE INFORMATION

During 2017, the Group decided to reclassify web development with net book value of HK$1.6 million from property, plant and equipment to intangible assets to better reflect the nature of the asset. Comparative amounts in the consolidated statement of financial position were restated to conform with the current year's presentation.

Since the amounts are reclassification within the statement of financial position this reclassification did not have any effect on the consolidated statement of profit or loss and other comprehensive income and consolidated statement of cash flows.

Statement of financial position	As previously reported HK$'000	Reclassification HK$'000	As restated 2016 HK$'000
Property, plant and equipment	42,647	(1,589)	41,058
Intangible assets	5,475	1,589	7,064

Notes to the Financial Statements

31 December 2017

40. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments and new standards which are not yet effective for the year ended 31 December 2017 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
HKFRS 9, *Financial instruments*	1 January 2018
HKFRS 15, *Revenue from contracts with customers*	1 January 2018
Amendments to HKFRS 2, *Share-based payment: Classification and measurement of share-based payment transactions*	1 January 2018
Amendments to HKAS 40, *Investment property: Transfers of investment property*	1 January 2018
HK(IFRIC) 22*, Foreign currency transactions and advance consideration*	1 January 2018
HKFRS 16, *Leases*	1 January 2019
HK(IFRIC) 23, *Uncertainty over income tax treatments*	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments and new standards is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. While the assessment has been substantially completed for HKFRS 9 and HKFRS 15, the actual impacts upon the initial adoption of the standards may differ as the assessment completed to date is based on the information currently available to the Group, and further impact may be identified before the standards are initially applied in the Group's interim financial report for the six months ending 30 June 2018. The Group may also change its accounting policy elections, including the transition options, until the standards are initially applied in that financial report.

HKFRS 9, Financial instruments

HKFRS 9 will replace the current standard on accounting for financial instruments, HKAS 39, Financial instruments: Recognition and measurement. HKFRS 9 introduces new requirements for classification and measurement of financial assets, including the measurement of impairment for financial assets and hedge accounting. On the other hand, HKFRS 9 incorporates without substantive changes the requirements of HKAS 39 for recognition and derecognition of financial instruments and the classification and measurement of financial liabilities.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2018 on a retrospective basis. The Group plans to use the exemption from restating comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018. Expected impacts of the new requirements on the Group's financial statements are as follows:

Notes to the Financial Statements

31 December 2017

40. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017 (cont'd)

HKFRS 9, Financial instruments (cont'd)

(a) Classification and measurement

HKFRS 9 contains three principal classification categories for financial assets: measured at (1) amortised cost, (2) fair value through profit or loss ("FVTPL") and (3) fair value through other comprehensive income ("FVTOCI"):

- The classification for debt instruments is determined based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the asset. If a debt instrument is classified as FVTOCI then interest revenue, impairment and gains/losses on disposal will be recognised in profit or loss.

- For equity securities, the classification is FVTPL regardless of the entity's business model. The only exception is if the equity security is not held for trading and the entity irrevocably elects to designate that security as FVTOCI. If an equity security is designated as FVTOCI then only dividend income on that security will be recognised in profit or loss. Gains, losses and impairments on that security will be recognised in other comprehensive income without recycling.

The Group has assessed that its financial assets currently measured at amortised cost and FVTPL will continue with their respective classification and measurements upon the adoption of HKFRS 9.

With respect to the Group's financial assets currently classified as "available-for-sale", these are investments in equity securities which the Group has the option to irrevocably designate as FVTOCI (without recycling) on transition to HKFRS 9. The Group plans not to elect this designation option for any of the investments held on 1 January 2018 and will recognise any fair value changes in respect of these investments in profit or loss as they arise. This will give rise to a change in accounting policy as currently the Group measures the available-for-sale investment at cost less impairment in accordance with the Group's policies set out in notes 1(j) and 1(n).

The estimated impact of the adoption of HKFRS 9 to the Group as at 31 December is as follows:

	As reported at 31 December 2017 HK$'000	Estimated adjustments due to adoption of HKFRS 9 HK$'000	Estimated adjusted opening balance at 1 January 2018 HK$'000
Available for sale financial asset	18,321	29,001	47,322
Revenue reserve	66,897	29,001	95,898

Notes to the Financial Statements

31 December 2017

40. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017 (cont'd)

HKFRS 9, Financial instruments (cont'd)

(a) Classification and measurement (cont'd)

Upon the initial adoption of HKFRS 9, fair value gains of HK$29 million related to the available-for-sale investments will be recognised in retained profits at 1 January 2018.

The classification and measurement requirements for financial liabilities under HKFRS 9 are largely unchanged from HKAS 39, except that HKFRS 9 requires the fair value change of a financial liability designated at FVTPL that is attributable to changes of that financial liability's credit risk to be recognised in other comprehensive income (without reclassification to profit or loss). The Group currently does not have any financial liabilities designated at FVTPL and therefore this new requirement will not have any impact on the Group on adoption of HKFRS 9.

(b) Impairment

The new impairment model in HKFRS 9 replaces the "incurred loss" model in HKAS 39 with an "expected credit loss" model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure either a 12-month expected credit loss or a lifetime expected credit loss, depending on the asset and the facts and circumstances. The Group expects that the application of the expected credit loss model will result in earlier recognition of credit losses. Based on a preliminary assessment, if the Group were to adopt the new impairment requirements at 31 December 2017, there would be no material difference between the accumulated impairment loss at that date as compared with that recognised under HKAS 39.

HKFRS 15, Revenue from Contracts with Customers

HKFRS 15 establishes a comprehensive framework for recognising revenue from contracts with customers. HKFRS 15 will replace the existing revenue standards, HKAS 18, Revenue, which covers revenue arising from sale of goods and rendering of services, and HKAS 11, Construction Contracts, which specifies the accounting for revenue from construction contracts.

HKFRS 15 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. HKFRS 15 offers a range of transition options including full retrospective adoption where an entity can choose to apply the standard to its historical transactions and retrospectively adjust each comparative period presented in its financial statements for the year ending 31 December 2018. When applying the full retrospective method, an entity may also elect to use a series of practical expedients to ease transition.

Based on an initial assessment, the Group does not expect a significant effect on the financial statements. The Group plans to adopt the standard when it becomes effective for the Group on 1 January 2018 using the full retrospective approach.

Notes to the Financial Statements

31 December 2017

40. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017 (cont'd)

HKFRS 16, Leases

As disclosed in note 1(m), the Group currently classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. Currently, the Group has only arrangements where it is acting as a lessee.

Once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

HKFRS 16 will primarily affect the Group's accounting as a lessee of leases for office space which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease. As disclosed in note 34, at 31 December 2017 the Group's future minimum lease payments under non-cancellable operating leases amounted to HK$32,731,000, the majority of which is payable either between 1 and 5 years after the reporting date or in more than 5 years. Some of these amounts may therefore need to be recognised as lease liabilities, with corresponding right-of-use assets, once HKFRS 16 is adopted.

The Group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of HKFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of HKFRS 16 and the effects of discounting.

Corporate Information

Executive Directors
Jiang Yulin (Chairman)
Zhang Xian

Independent Non-Executive Directors
Hu Baihe
Yuen Kwok Kuen
Guo Jingbin

Audit Committee
Hu Baihe
Yuen Kwok Kuen
Guo Jingbin

Remuneration Committee
Hu Baihe
Yuen Kwok Kuen
Guo Jingbin
Zhang Xian

Nomination Committee
Hu Baihe
Yuen Kwok Kuen
Guo Jingbin
Jiang Yulin

Chief Executive Officer
Zhang Xian

Company Secretary
Leung Wing Han Sharon

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