SHOUGANG CONCORD GRAND (GROUP) LIMITED

Stock Code : 730

ANNUAL REPORT 2018

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Xu Liang *(Chairman)*
Liu Dongsheng *(Managing Director)*
Huang Donglin *(Non-executive Director)*
Tam King Ching, Kenny
(Independent Non-executive Director)
Yip Kin Man, Raymond
(Independent Non-executive Director)
Fei Jianjiang
(Independent Non-executive Director)
Wan Siu Wah, Wilson
(Independent Non-executive Director)

EXECUTIVE COMMITTEE

Xu Liang *(Chairman)*
Liu Dongsheng

AUDIT COMMITTEE

Tam King Ching, Kenny *(Chairman)*
Yip Kin Man, Raymond
Fei Jianjiang
Wan Siu Wah, Wilson

NOMINATION COMMITTEE

Xu Liang *(Chairman)*
Huang Donglin
Tam King Ching, Kenny
Yip Kin Man, Raymond
Fei Jianjiang
Wan Siu Wah, Wilson

REMUNERATION COMMITTEE

Tam King Ching, Kenny *(Chairman)*
Xu Liang
Huang Donglin
Yip Kin Man, Raymond
Fei Jianjiang
Wan Siu Wah, Wilson

COMPANY SECRETARY

Yeung Ching Man

AUDITOR

Deloitte Touche Tohmatsu

PRINCIPAL REGISTRAR

Estera Management (Bermuda) Ltd.
Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

REGISTERED OFFICE

Canon's Court
22 Victoria Street
Hamilton HM 12
Bermuda

PRINCIPAL OFFICE IN HONG KONG

5/F., Bank of East Asia Harbour View Centre
56 Gloucester Road
Wanchai
Hong Kong

STOCK CODE

730

WEBSITE

www.shougang-grand.com.hk

DIRECTORS' BIOGRAPHIES

Mr. Xu Liang, aged 53, senior accountant, graduated from Fudan University and obtained a bachelor degree in statistics and a master degree in business administration from Tsinghua University. Mr. Xu was appointed as Executive Director and Managing Director in January 2017, and was appointed as the Chairman of the board of directors of the Company (the "Board") in June 2017. He ceased to act as the Managing Director of the Company from January 2018. He is an executive director and a member of the executive committee of Shougang Concord International Enterprises Company Limited ("Shougang International"). He is the executive director and the member of the executive committee, the nomination committee and remuneration committee of Global Digital Creations Holdings Limited ("GDC"). Mr. Xu joined the group of Shougang Group Co., Ltd ("Shougang Group") in 1988 and held various senior positions. He is the managing director of Shougang Holding (Hong Kong) Limited ("Shougang Holding"). Shougang Holding is a substantial shareholder of the Company within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") while Shougang Group is the holding company of Shougang Holding. Mr. Xu has extensive experience in management.

A service agreement was entered into between Mr. Xu and a wholly-owned subsidiary of the Company for a term of three years commencing on 1 January 2017. Under the service agreement, Mr. Xu is entitled to a salary and discretionary bonus as may be determined by the Board or its delegated committee(s) from time to time. For both financial years 2018 and 2019, Mr. Xu's monthly salary is HK$180,000. Such salary was determined by the Remuneration Committee with reference to Mr. Xu's roles and duties as well as the then prevailing market conditions.

DIRECTORS' BIOGRAPHIES

Mr. Liu Dongsheng, aged 53, holds a bachelor degree in biology in Beijing Normal University, double degree in Economics (Distance Learning) in Beijing Construction Engineering College and a master degree in business administrative in Institute of NHTV Breda University of Applied Sciences. Mr. Liu was appointed as Executive Director and Managing Director in January 2018, and is a member of the Executive Committee. Mr. Liu was an independent director of Zhejiang Canaan Technology Co., Ltd., a company listed on the Shenzhen Stock Exchange, from August 2014 to April 2016. He was also the supervisor of the Department of Securities and Capital Operation of Beijing Energy Investment Holding Co., Ltd, the Managing Director of the Investment Department and Head of Strategic Client Division in China Merchants Securities (HK) Co., Ltd., and the legal representative and General Manager of Shenzhen Merchants Zhiyuan Consulting Company Limited. Mr. Liu has extensive experience in finance and securities, assets management, research and investment.

A service agreement was entered into between Mr. Liu and a wholly-owned subsidiary of the Company for a term commencing on 6 January 2018 and ending on 31 December 2019. Under the service agreement, Mr. Liu is entitled to a salary and discretionary bonus as may be determined by the Board or its delegated committee(s) from time to time. For both financial years 2018 and 2019, Mr. Liu's monthly salary is HK$220,000. Such salary was determined by the Remuneration Committee with reference to Mr. Liu's experience and duties as well as the then prevailing market conditions.

Mr. Huang Donglin, aged 58, holds an executive master of business administration from Shanghai Jiao Tong University and a doctor's degree from United Business Institutes in Belgium. Mr. Huang was appointed as Non-executive Director of the Company in May 2018 and is a member of each of the Remuneration Committee and the Nomination Committee. He held positions in The People's Bank of China, Industrial and Commercial Bank of China and Bank of China. Mr. Huang has worked in the finance industry for over thirty years and led the equity reorganization and restructuring of a number of domestic companies. He has extensive experience in finance, and has been engaged in relevant enterprise management and diagnosis for a long time.

An engagement letter was entered into with Mr. Huang for a term of three years commencing on 18 May 2018. Under the engagement letter, Mr. Huang is entitled to a director's fee as may be determined by the Board from time to time. For both financial years 2018 and 2019, the director's fee of Mr. Huang is HK$15,833 per month. Such director's fee was determined by the Board with reference to Mr. Huang's experience and duties as well as the then prevailing market conditions.

DIRECTORS' BIOGRAPHIES

Mr. Tam King Ching, Kenny, aged 69, holds a bachelor's degree in commerce from Concordia University, Canada. Mr. Tam was appointed an Independent Non-executive Director of the Company in February 1996 and is the chairman of each of the Audit Committee and the Remuneration Committee, as well as a member of the Nomination Committee. He is a practising Certified Public Accountant in Hong Kong. Mr. Tam is a fellow member of the Hong Kong Institute of Certified Public Accountants and a member of the Chartered Professional Accountants of Ontario, Canada (formerly named as the Institute of Chartered Accountants of Ontario, Canada). He is serving as a member of the Restructuring and Insolvency Faculty Executive Committee in the Hong Kong Institute of Certified Public Accountants. Mr. Tam is a Past President of The Society of Chinese Accountants and Auditors. He also serves as an independent non-executive director of certain listed companies on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), namely, BeijingWest Industries International Limited ("BeijingWest International"), CCT Fortis Holdings Limited, Greater Bay Area Investments Group Holdings Limited, Kingmaker Footwear Holdings Limited, Starlite Holdings Limited, Hong Kong Shanghai Alliance Holdings Limited, West China Cement Limited and Wisdom Education International Holdings Company Limited.

An engagement letter was entered into with Mr. Tam for a term of three years commencing on 1 January 2017. Under the engagement letter, Mr. Tam is entitled to a director's fee as may be determined by the Board from time to time. For both financial years 2018 and 2019, the director's fee of Mr. Tam is HK$240,000 for a full year. Such director's fee was determined by the Board with reference to Mr. Tam's experience and duties as well as the then prevailing market conditions.

Mr. Yip Kin Man, Raymond, aged 72, holds a bachelor's degree in arts with honors from the University of Hong Kong. Mr. Yip was appointed an Independent Non-executive Director of the Company in January 2007 and is a member of each of the Audit Committee, the Nomination Committee and the Remuneration Committee. He is also an independent non-executive director of each of Shougang Concord Century Holdings Limited ("Shougang Century") and BeijingWest International. Mr. Yip is a practising solicitor, notary public and Attesting Officer appointed by the Ministry of Justice of the PRC. He has extensive experience in legal profession.

An engagement letter was entered into with Mr. Yip for a term of three years commencing on 1 January 2017. Under the engagement letter, Mr. Yip is entitled to a director's fee as may be determined by the Board from time to time. For both financial years 2018 and 2019, the director's fee of Mr. Yip is HK$240,000 for a full year. Such director's fee was determined by the Board with reference to Mr. Yip's experience and duties as well as the then prevailing market conditions.

DIRECTORS' BIOGRAPHIES

Mr. Fei Jianjiang, aged 48, holds a bachelor degree in economics from Hengyang Institute of Technology* (currently renamed as University of South China) and a master degree in management from Xi'an Jiaotong University. Mr. Fei was appointed as an Independent Non-executive Director of the Company in March 2018 and is a member of each of the Audit Committee, the Nomination Committee and the Remuneration Committee. He held positions in China Construction Bank and Shanghai Pudong Development Bank. He also served successively as the chief financial officer, deputy general manager and general manager of China-Singapore Suzhou Industrial Park Ventures Co., Ltd. Mr. Fei is currently an executive partner of SIP Oriza Seed Fund Management Co., Ltd. (蘇州工業園區元禾原點創業投資管理有限公司), and is a director of Digital China Information Service Company Ltd.* (a company listed on the Shenzhen Stock Exchange, stock code: 000555), a subsidiary of Digital China Holdings Limited (a company listed on the main board of the Stock Exchange (stock code: 861) whose Taiwan Depositary Receipts are listed on the Taiwan Stock Exchange Corporation (stock code: 910861)).

An engagement letter was entered into with Mr. Fei for a term of three years commencing on 29 March 2018. Under the engagement letter, Mr. Fei is entitled to a director's fee as may be determined by the Board from time to time. For both financial years 2018 and 2019, the director's fee of Mr. Fei is HK$20,000 per month. Such director's fee was determined by the Board with reference to Mr. Fei's experience and duties as well as the then prevailing market conditions.

DIRECTORS' BIOGRAPHIES

Mr. Wan Siu Wah, Wilson, aged 58, holds a bachelor honours degree in business administration from the Chinese University of Hong Kong and a master degree in business administration from the University of Pittsburgh in the United States. Mr. Wan was appointed as an Independent Non-executive Director of the Company in March 2018 and is a member of each of the Audit Committee, the Nomination Committee and the Remuneration Committee. He has over 30 years of experience in corporate banking and investment banking. He held positions in Bank of Credit and Commerce International, Australia and New Zealand Banking Group Limited, and Industrial and Commercial Bank of China (Asia) Limited. From 2007 to 2015, he served successively as the managing director of BOC International Holdings Limited and the chief executive officer of China Merchants Securities (HK) Co., Limited (a subsidiary of China Merchants Securities Co., Ltd. (a company listed on the main board of the Stock Exchange, stock code: 6099 and listed on the Shanghai Stock Exchange, stock code: 600999)). Mr. Wan currently serves as the chief executive officer of Cleverage Capital Limited and an independent non-executive director of Shenzhen Expressway Company Limited (a company listed on the main board of the Stock Exchange, stock code: 548 and listed on the Shanghai Stock Exchange, stock code: 600548). He also serves as an adjunct professor of the Department of Finance, a member of the MBA Advisory Board and the chairman of its Alumni Committee of the Chinese University of Hong Kong.

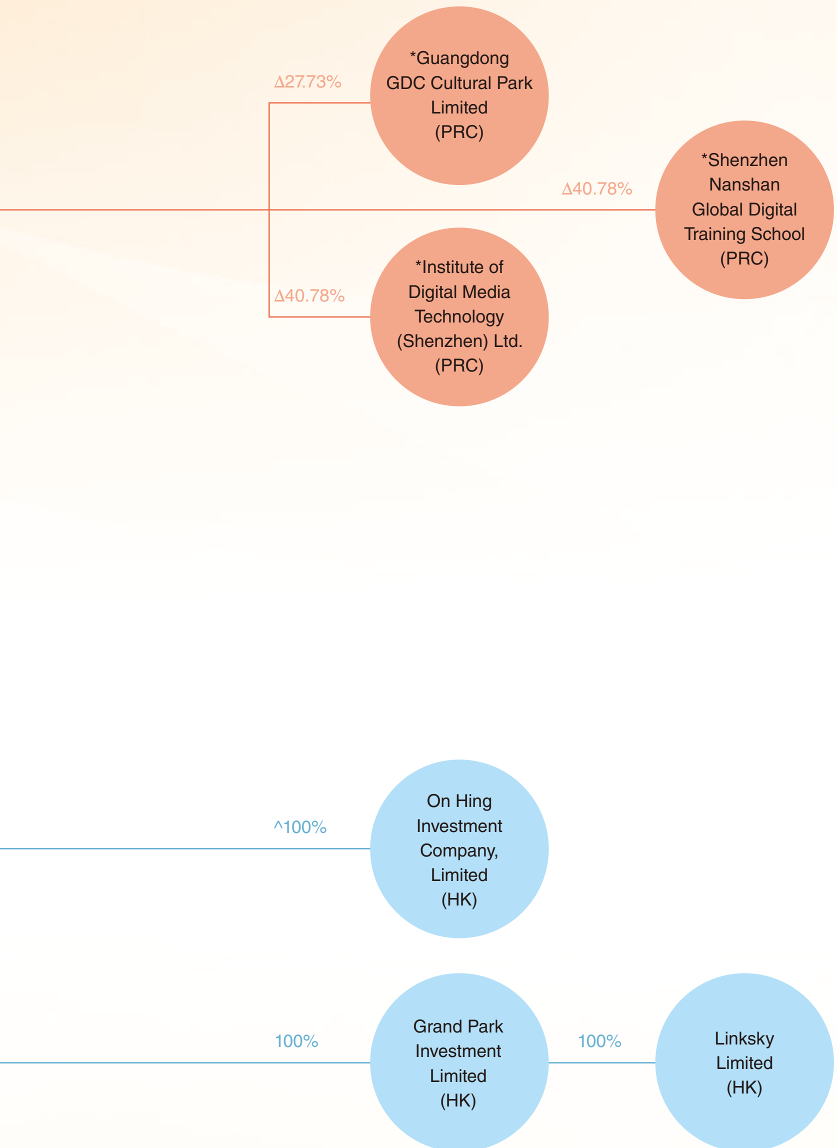
An engagement letter was entered into with Mr. Wan for a term of three years commencing on 29 March 2018. Under the engagement letter, Mr. Wan is entitled to a director's fee as may be determined by the Board from time to time. For both financial years 2018 and 2019, the director's fee of Mr. Wan is HK$20,000 per month. Such director's fee was determined by the Board with reference to Mr. Wan's experience and duties as well as the then prevailing market conditions.

MAIN OPERATIONAL STRUCTURE

AS AT 31 DECEMBER 2018

MAIN OPERATIONAL STRUCTURE

AS AT 31 DECEMBER 2018

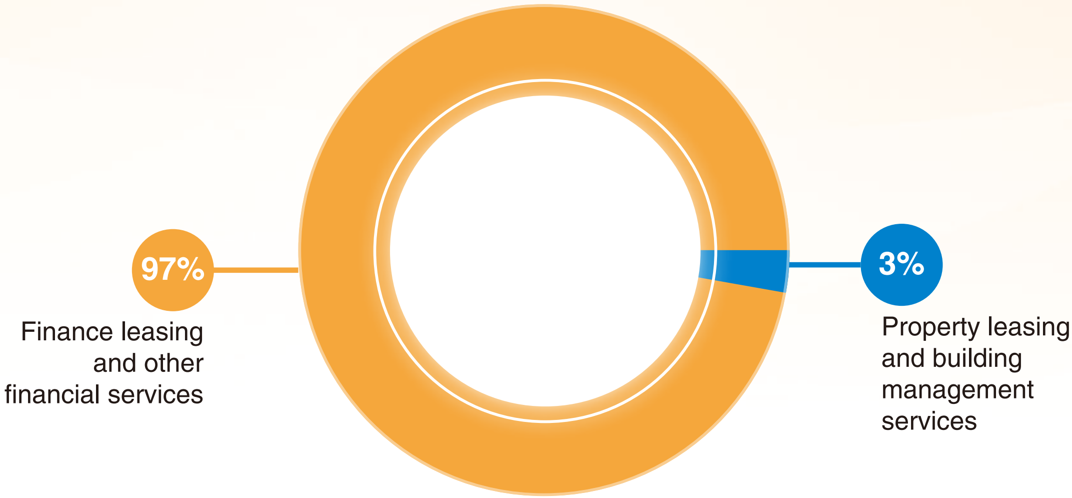


Notes:

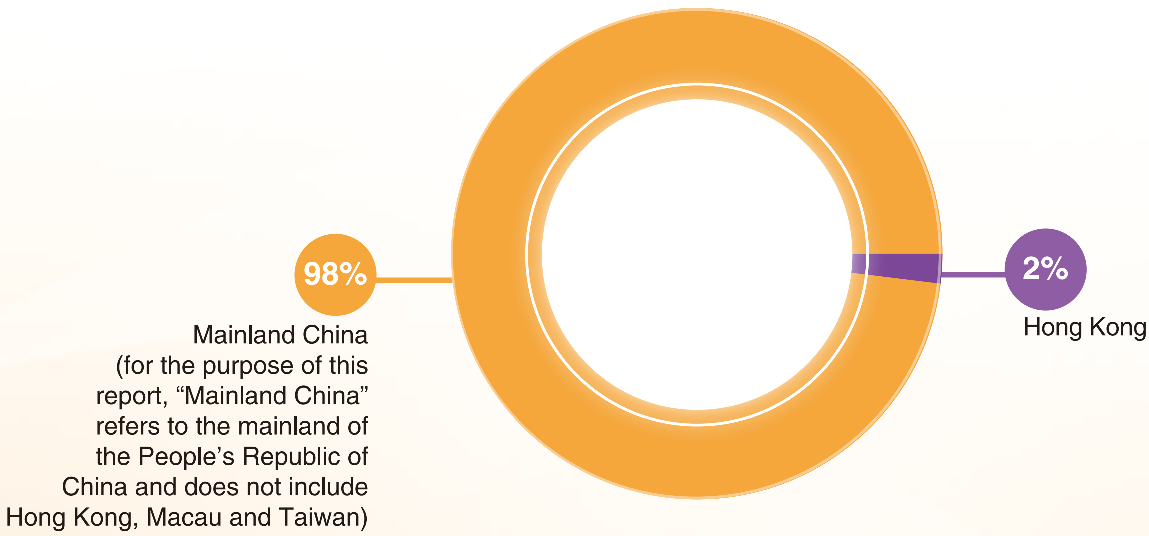
- \# Listed company
- * For identification purpose only
- Δ Attributable interest held by Shougang Concord Grand (Group) Limited
- ^ Interests only refer to voting shares

FINANCIAL HIGHLIGHTS

TURNOVER BY PRINCIPAL ACTIVITY FOR THE YEAR 2018



TURNOVER BY GEOGRAPHICAL LOCATION FOR THE YEAR 2018



CHAIRMAN'S STATEMENT

I am pleased to present the 2018 annual report of the Group. In 2018, Shougang Concord Grand pushed forth the comprehensive and strategic transformation with the theme of industry sector and financing integration by shifting its core business and market competitiveness to supply chain technology services and financial services. Through capital operation and business structure optimization, we completed the initial establishment of our supply chain and financial business structure, which in turn optimized the Group's asset structure. As of the end of 2018, the total assets of the Group reached approximately HK$2.2 billion, and our liquidity has also improved significantly.

With the support from Shougang Group and using our existing finance leasing business as a base, Shougang Concord Grand successfully established a supply chain financial service platform integrated with supply chain information technology platform, licensed alternative financial solutions and digital asset risk control system through mergers and acquisitions, restructuring and establishment of new companies. The main focus of the supply chain financial service platform is to serve the steel industry, and the platform will be expanded to the supply chain systems of strategic industries – auto, urban renewal and healthcare industries in the future.

In 2018, while shifting its focus to technology-based supply chain financial services, Shougang Concord Grand also established the prerequisite structural foundation and a new management team for its technology-based supply chain financial service business, reshuffled the cultural recreation business and property business which were not pertinent to the main business of supply chain financial services, and strengthened its capital through rights issue, which laid an important foundation for comprehensive strategic transformation.

In 2019, Shougang Concord Grand will prioritize the development of its supply chain financial services in the steel industry through serving the upstream and downstream customers of Shougang Group's main businesses. In addition, Shougang Concord Grand will also expand to several strategic industries including auto, healthcare and urban renewal through joint ventures, investments, mergers and acquisitions as and when appropriate in the future, and expand its supply chain management and financial service business by focusing on major enterprises in these relevant industries. Shougang Concord Grand's vision on its supply chain business is to become a technology-based supply chain finance engineer serving the strategic industries, and strive to improve the transaction efficiency along the supply chain and reduce the cost of financial risk control through technology-based financial services, thereby facilitating the advancements of these strategic industries. As these major industries are supported by national policies, these four strategic industries are the focus of market capital and have attracted strategic investments from Shougang Group, a substantial shareholder of Shougang Concord Grand. Shougang Group's strategy of dual main businesses (focusing on both steel business and city integrated services industry) also significantly enhanced Shougang Concord Grand in accessibility to these industries resources, which in turn facilitate Shougang Concord Grand in promoting its supply chain service products in these relevant industries, expanding its business scale and enhancing its profitability.

In respect of finance leasing segment, the Company and Shougang Group Co., Ltd ("Shougang Group") entered into a new master loan facility agreement with an aggregate principal amount of RMB5 billion, which continued to bring impetus to business expansion. At the same time, the Group strived to optimize its financing structure, actively explored both domestic and overseas financing channels and achieved flexible deployment of its resources.

CHAIRMAN'S STATEMENT

In 2019, by focusing on the supply chain of major enterprises, the Group aims to establish a customer service system that is compatible to the industry characteristics, a product portfolio that satisfies customers' needs, a transaction and information platform that meets the needs of such products and services, and an IT system that facilitates the operation, management and control of the Group's business, thereby realizing the business transformation of the Group through the organic integration of industry, supply chain finance and information technology.

In addition to active business development, the Group also attaches great importance in risk management and control and strives to improve its asset quality. For risk management, we will strengthen the establishment of our risk management function while we carry out the business transformation of the Group. A prudent philosophy of good governance and sound risk management is fundamental to create long-term value. The Group always attends to maintain assets quality and proactive financing policies and resources, so as to pave a solid foundation for the Group's long-term development. A sound risk management enables the Group to capture every business opportunity and respond to the ever-changing market conditions in a flexible manner. Based on effective risk management, the Group has been proactively seeking business expansion and exploring new opportunities through cautious strategic deployment. Moreover, we endeavor to facilitate the development of industry supply chain business online risk control system, in order to provide an efficient and supportive tool for the Group's risk control and management.

The Group will continue to enhance its financial innovation capabilities to better serve the financial service industry. Through amalgamation of financial and industrial needs, it will provide integrated financial services to enterprises with an aim to enlarge the Group's financial service scale. By devoting more resources to develop innovative financial service products, the Group will continue to optimize the structure of its financial service business and implement timely measures to fine tune our development strategies, thereby enabling sustainable growth of the Group and continuously enhancing value for the shareholders.

On behalf of the Board, I would like to extend my sincere thanks to our customers, suppliers and shareholders for their continuous support to the Group. I would also extend my gratitude and appreciation to the management and staff for their hard work and dedication throughout the year.

Xu Liang
Chairman

Hong Kong, 25 March 2019

MANAGEMENT DISCUSSION AND ANALYSIS

In 2018, the Group strived to promote the integration of industry sectors with finance function, through supply chain technology services, financial services and asset management services as our core business and competitive edge in the market. Through the implementation of capital operations and business structure optimization, we have completed the initial establishment of supply chain business structure and improved our asset structure. We therefore possessed the prerequisites to commence the core business of industry centric supply chain technology and financial services.

FINANCIAL KEY PERFORMANCE INDICATORS

The financial key performance indicators are analysed as below:

	2018 **HK$'000**	2017 HK$'000	+/(-) Change
Financial performance			
Revenue	**96,623**	109,512	-12%
Gross profit margin (%)	**56%**	54%	2%
Loss attributable to owners of the Company	**(58,882)**	(11,332)	420%
Key financial indicators			
Total cash	**806,150**	320,080	152%
Total assets	**2,218,214**	2,630,955	-16%
Total liabilities	**592,124**	1,051,498	-44%
Bank borrowings	**494,541**	896,494	-45%
Equity attributable to owners of the Company	**1,339,688**	1,281,917	5%
Current ratio	**447%**	184%	263%
Net debt to total equity	**N/A**	36%	N/A
Basic loss per share (HK cents)	**(2.00)**	(0.43)	365%

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL OVERVIEW

The Group recorded loss of approximately HK$58,882,000 for the year ended 31 December 2018 attributable to owners of the Company, when compared with a loss of approximately HK$11,332,000 for the year ended 31 December 2017 attributable to owners of the Company. The increase was due to the increase in the share of loss of an associate. Revenue of the Group for the year ended 31 December 2018 was approximately HK$96,623,000, which represented a decrease of approximately 12% when compared with that of approximately HK$109,512,000 for the year of 2017. The decrease was mainly attributable to the decrease in income from the finance leasing and other financial services segment. The Group recorded a gross profit of approximately HK$54,196,000 for the year ended 31 December 2018, representing a gross profit margin of approximately 56%, which is an increase of approximately 2% when compared with the gross profit margin of approximately 54% for the year 2017. Basic loss per share for the year ended 31 December 2018 was HK2.00 cents (2017: loss per share was HK0.43 cents).

Revenue for the year ended 31 December 2018 was approximately HK$96,623,000, representing a decrease of approximately 12% when compared with that of approximately HK$109,512,000 for the year 2017. The decrease was mainly attributable to the decrease in income from the finance leasing and other financial services segment by approximately HK$12,406,000.

The Group made a gross profit of approximately HK$54,196,000 for the year ended 31 December 2018, representing a gross profit margin of approximately 56%, which is an increase of 2% when compared with the gross profit margin of approximately 54% for the year 2017 which was mainly attributable to the increase in gross profit margin from the finance leasing and other financial services segment.

Other income for the year ended 31 December 2018 amounted to approximately HK$15,620,000 (2017: HK$4,389,000), representing an increase of approximately 2.6 times. The increase was mainly due to the increase in interest income from bank deposits.

Administrative expenses for the year ended 31 December 2018 amounted to approximately HK$58,798,000 (2017: HK$40,530,000), representing an increase of approximately 45%. The increase was mainly due to the rise in professional services fee driven by business development. The increase in professional services fee amounted to approximately HK$10,500,000.

For the year ended 31 December 2018, share of loss of associates amounted to approximately HK$122,547,000 (2017: HK$11,947,000), the reversal of impairment loss of approximately HK$75,640,000 (2017: impairment loss of HK$9,626,000) on interest in an associate was made during the year.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

In terms of business expansion, in 2018, the Group seized the opportunities of favourable policies for innovative and modern supply chain business in China and the Shougang Group's dual core business industry upgrade strategy. Building on the foundation of its existing financial and lease business, the Group has obtained all the prerequisite licenses in relation to our supply chain financial business and has established the supply chain technology financial services platform through acquisition, reorganization and new business establishment. The Group will stick fast to the strategic transformation target of "supply chain technology finance", leverage on its strength in the smart supply chain management service platform supported by internet of things and big data, improve supply chain transaction efficiency with technology based financial engineering solutions, and concentrate its efforts on expanding its lease, factoring, loan and asset management business.

During the year, revenue from the finance leasing and other financial services segment decreased by approximately 12% to approximately HK$93,490,000 (2017: HK$105,896,000), while the segment result recorded a profit of approximately HK$47,874,000 (2017: HK$46,452,000). The decrease in revenue from the business of finance leasing and other financial services segment was mainly attributed to the decrease in interest-bearing finance lease receivables balance. The segment result was close to that of the previous year.

During the year, revenue from the property leasing and building management services segment decreased by approximately 13% to approximately HK$3,133,000 (2017: HK$3,616,000), while the segment result recorded a profit of approximately HK$5,869,000 (2017: HK$13,604,000). The decrease in revenue from the property leasing and building management services segment was mainly attributed to the decrease in rentable floor area due to disposal of part of the properties during the year. The decrease in segment result was mainly attributable to the decrease in fair value gain of investment properties of the Group. The Group recorded an increase in fair value of investment properties of approximately HK$3,147,000 during the year (2017: fair value increase of HK$10,781,000).

During the year, the assets management segment result recorded a profit of approximately HK$466,000 (2017: HK$752,000). The decrease in segment result profit was mainly attributable to the decrease in interest income from bank deposits.

In 2019, the Group will establish unified brand, products and services for our supply chain technology and financial business, develop a trade platform and big data system for our supply chain business, and commence the development of an online risk management system for asset-securitization and steel industry financial services. The Group will focus on the steel business of Shougang Group, our largest shareholder, and its subsidiaries on the factoring business of upstream procurement for the Shougang Group and its subsidiaries, as well as the downstream sales business of steel products for our customers. The Group will also commence online supply chain financing services, offline factoring services and trade financing services. The Group will commence its supply chain financial services, in the healthcare, auto and urbanization industries as and when appropriate.

BUSINESS REVIEW AND OUTLOOK (continued)

In terms of risk management infrastructure, prudent and effective risk management helps in untapping the commercial value of long-term investment, as well as laying a solid foundation of the Group's sustainable development. In view of a volatile credit environment in China and changes in international economic environment, we will put emphasis on strengthening our risk control system, introducing information technology platform, improving and optimizing our risk control mechanism, adjusting our management and control strategies in a timely manner, and continuing our management optimization. We will also promote the development of our online risk management platform for asset-securitization and steel industry financial services as an efficient tool for the Group's risk management.

LIQUIDITY, FINANCIAL RESOURCES AND FINANCING ACTIVITIES

The Group aimed to maintain stable funding sources and financing is arranged to match business requirements and cash flows. The financial leverage of the Group as at 31 December 2018 as compared to 31 December 2017 is summarized below:

	31 December 2018 HK$'000	31 December 2017 HK$'000
Total borrowings		
Current borrowings	**238,859**	535,048
Non-current borrowings	**255,682**	361,446
Sub-total	**494,541**	896,494
Total cash		
Bank balances and cash	**806,150**	288,221
Structured deposit	**–**	12,048
Restricted bank deposits	**–**	19,811
Sub-total	**806,150**	320,080
Net borrowings	**N/A**	576,414
Total equity	**1,626,090**	1,579,457
Total assets	**2,218,214**	2,630,955
Financial leverage		
Net debt to total equity	**N/A**	36%
Net debt to total assets	**N/A**	22%
Current ratio	**447%**	184%

LIQUIDITY, FINANCIAL RESOURCES AND FINANCING ACTIVITIES (continued)

On 31 October 2018, the Company issued 1,336,096,234 new shares of the Company by way of rights issue, and the net proceeds from rights issue was approximately HK$179,521,000 (the "Rights Issue"). The Company completed the issue of rights shares to fund the acquisition and capital increase as set out in the circular of the Company dated 4 September 2018 ("Acquisition and Capital Increase"). The net proceeds from the issue of right shares was approximately HK$179,521,000, in which approximately HK$1,696,500 and HK$45,560,000 have been used for payment of the consideration in relation to the acquisition of 86.7143% equity interest of Shouhua Jingxi Cooperative Innovation (Beijing) Technology Development Co., Ltd. ("Shouhua Jingxi Cooperative Innovation") and partial fulfillment of the capital contribution obligation to Shouhua Jingxi Cooperative Innovation, respectively. The unutilised net proceeds was kept in deposit at banks. Details of the amendments of the Acquisition and Capital Increase were disclosed in the announcement of the Company dated 31 December 2018.

As at 31 December 2018, the Group had bank balances and cash of approximately HK$806,150,000 (31 December 2017: HK$288,221,000), structured deposit of approximately HK$Nil (31 December 2017: HK$12,048,000) and restricted bank deposits of approximately HK$Nil (31 December 2017: HK$19,811,000) which were mainly denominated in Hong Kong dollars, US dollars and Renminbi. The increase was mainly attributable to net cash from operating activities of approximately HK$649,430,000, proceeds from disposal of an investment property of approximately HK$52,351,000, dividends from an associate of approximately HK$49,533,000 and net proceeds on rights issue of approximately HK$179,521,000, netting off with the net repayment of bank loans of approximately HK$350,590,000 and payment of purchase of bond investment of approximately HK$70,116,000.

As at 31 December 2018 the Group's borrowings amounted to approximately HK$494,541,000, of which approximately HK$238,859,000 were repayable within twelve months from 31 December 2018 and approximately HK$255,682,000 were repayable after twelve months from 31 December 2018. During the year, the Group obtained new bank loans of approximately HK$140,000,000 for operating cash flow of the Group. All loans bore interest at market rates.

CAPITAL STRUCTURE

The equity attributable to owners of the Company amounted to approximately HK$1,339,688,000 as at 31 December 2018 (31 December 2017: HK$1,281,917,000). The increase was mainly due to the new rights shares of approximately HK$179,521,000, netting off with the loss for the year ended 31 December 2018 attributable to owners of the Company of approximately HK$58,882,000 and the exchange differences arising on translation of approximately HK$57,907,000 in total during the year. The Company issued 1,336,096,234 new shares during the year. The issued share capital of the Company was approximately HK$40,083,000 (represented by approximately 4,008,289,000 issued ordinary shares).

MANAGEMENT DISCUSSION AND ANALYSIS

MATERIAL ACQUISITION, DISPOSALS AND SIGNIFICANT INVESTMENT

On 13 June 2018, On Hing Investment Company, Limited ("On Hing", a wholly-owned subsidiary of the Company) entered into an agreement with Beijing Services New Shougang Venture Capital Investment LLP ("Beijing Services New Shougang") and Beijing West Business Factoring Company Limited ("Beijing West Business Factoring"), pursuant to which On Hing agreed to purchase 41.41% equity interest of Beijing West Business Factoring from Beijing Services New Shougang for RMB75,262,645.50 (the "First Transaction"). The First Transaction has not been completed. Beijing West Business Factoring is engaged in the provision of business factoring services.

On 13 June 2018, Grand Cheers Property Limited ("Grand Cheers", a wholly-owned subsidiary of the Company entered into an agreement with Jingji Cooperative Development Demonstration Zone (Tangshan) Fund Management Co., Ltd. ("Jingi Cooperative") and Shouhua Jingxi Cooperative Innovation, pursuant to which Grand Cheers agreed to purchase 85.7143% equity interest of Shouhua Jingxi Cooperative Innovation ("Sale Shares") from Jingji Cooperative for RMB1,500,000, and Grand Cheers will be responsible for the outstanding capital contribution obligation to the Sale Shares in the amount of RMB58,500,000 (the "Second Transaction"). The Sale Shares had been completed. The principal business of Shouhua Jingxi Cooperative Innovation is providing supply chain financial consulting services and management services.

On 13 June 2018, Gold Cosmos Development Limited ("Gold Cosmos", a wholly-owned subsidiary of the Company) entered into a capital increase agreement with Beijing Shougang Fund Co., Ltd. ("Shougang Fund") and Beijing Jingxi Supply Chain Management Co., Ltd. ("Jingxi Supply Chain"), pursuant to which Gold Cosmos agreed to contribute additional capital in the amount of RMB200,000,000 to the registered capital of Jingxi Supply Chain and thereby increasing its shareholding in Jingxi Supply Chain from 10% to 70% (the "Capital Increase"). The Capital Increase has not been completed. Jingxi Supply Chain is principally engaged in providing supply chain financial management services.

On 1 August 2018, Gold Cosmos contributed capital in the amount of RMB10,000,000 to the registered capital of Jingxi Supply Chain pursuant to an agreement entered into in April 2018 in exchange for 10% equity interest of Jingxi Supply Chain. The capital contribution had been completed.

On 21 November 2018, SCG Investment (BVI) Limited (a wholly-owned subsidiary of the Company), as vendor, entered into the a sale and purchase agreement with Shougang Holding (Hong Kong) Limited, as purchaser, in relation to the restructuring by way of disposal of Upper Nice Assets Ltd. (the "Disposal") which holds 619,168,023 shares, representing approximately 40.78% equity interests, of Global Digital Creations Holdings Limited (Stock Code: 8271), at a consideration of HK$154,792,005.75. The Disposal was approved at the Special General Meeting held on 28 December 2018 and was completed on 8 January 2019.

Saved as disclosed above, the Group had no material acquisitions, disposals and significant investment.

CHARGE ON ASSETS

As at 31 December 2018, the Group had the following charge on assets:

(i) The Group's investment properties with an aggregate carrying value of approximately HK$37,500,000 were pledged to banks to secure for bank loans with outstanding amount of approximately HK$13,632,000.

(ii) The Group's finance lease receivables with a carrying value of approximately HK$335,876,000 were pledged to banks to secure for bank loans with outstanding amount of approximately HK$340,909,000.

FOREIGN EXCHANGE EXPOSURE

The normal operations and investments of the Group are mainly in Hong Kong and China, with revenue and expenditure denominated in Hong Kong dollars and Renminbi. The Directors believe that the Group does not have significant foreign exchange exposure. However, if necessary, the Group will consider using forward exchange contracts to hedge against foreign exchange exposures. As at 31 December 2018, the Group has no significant foreign exchange exposure.

CONTINGENT LIABILITIES

The Group had no significant contingent liabilities as at 31 December 2018.

EMPLOYEES

As at 31 December 2018, the Group employed 46 (31 December 2017: 51) full time employees (excluding those under the payroll of associates of the Group). The Group remunerated its employees mainly with reference to the prevailing market practice, individual performance and experience. Other benefits such as medical coverage, insurance plan, mandatory provident fund, discretionary bonus and employees share option scheme are also available to employees of the Group. Remuneration packages are reviewed either annually or through special increment.

During the year ended 31 December 2018, the Company and its subsidiaries have not paid or committed to pay to any individual any amount as an inducement to join or upon joining the Company and/or its subsidiaries.

CORPORATE GOVERNANCE REPORT

The Company is committed to maintaining good corporate governance standard and procedures to safeguard the interests of all shareholders and to enhance accountability and transparency.

CORPORATE GOVERNANCE PRACTICES

The Company has complied with the code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") during the financial year ended 31 December 2018, except for the following deviation:

– Under the code provision A.2.1 of the CG Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive should be clearly established and set out in writing.

  Mr. Xu Liang had acted as both the Chairman and the Managing Director of the Company until 5 January 2018 before the appointment of Mr. Liu Dongsheng by the Board as the Managing Director of the Company with effect from 6 January 2018 in order to satisfy the requirement of the code provision A.2.1 of the CG Code, and Mr. Xu Liang ceased to act as the Managing Director of the Company from the same date but remains as the Chairman of the Board.

BOARD OF DIRECTORS

Composition

The Board currently comprises a total of seven Directors, being two Executive Directors, one Non-executive Director and four Independent Non-executive Directors. The list of Directors is set out in the section headed "Report of the Directors" of this annual report. In addition, an updated list of the Directors and their roles and functions is published on the websites of the Stock Exchange and the Company respectively.

The Board is characterised by significant diversity and has a balance of skills and experience appropriate for the requirements of the business of the Company. The Directors' biographical information is set out in the section headed "Directors' Biographies" of this annual report.

BOARD OF DIRECTORS (continued)

Composition (continued)

The Directors give sufficient time and attention to the affairs of the Company and its subsidiaries (the "Group"). All Directors are required to disclose to the Company at the time of their appointment and annually the number and the nature of offices held in public companies or organizations and other significant commitments with an indication of the time involved.

Save for those as disclosed in the section headed "Directors' Biographies" as set out on pages 3 to 7 of this annual report, the Board members have no other financial, business, family or other material/relevant relationships with each other.

The Board includes a balanced composition of Executive and Non-executive Directors (including Independent Non-executive Directors) so that there is a sufficient independent element on the Board, which can effectively exercise independent judgement.

The Non-executive Directors are of sufficient number and calibre for their views to carry weight. The functions of Non-executive Directors include:

- bringing an independent judgement at Board meetings;

- taking the lead where potential conflicts of interests arise;

- serving on Board committees if invited; and

- scrutinising the Company's performance and monitoring performance reporting.

The Non-executive Directors (including Independent Non-executive Directors) have made a positive contribution to the development of the Company's strategy and policies through independent, constructive and informed comments. They give the Board and the committees on which they serve the benefit of their skills, expertise, varied backgrounds and qualifications through regular attendance and active participation.

Composition of the Board is disclosed, and the Independent Non-executive Directors are identified, in all corporate communications to shareholders.

BOARD OF DIRECTORS (continued)

Board diversity

The Company adopted a board diversity policy (the "Board Diversity Policy") which sets out its approach to achieve diversity on the Board with a view to achieving a sustainable and balanced development of the Company.

The Company seeks to achieve Board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The Company will also take into account factors based on its own business model and specific needs from time to time. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

We assessed the diversity of our Board and revealed that:

- The independence of Directors is at a high level exceeding 50%

- The age group of 50-59 represents half of the Board

- The diversity level in terms of professional background and experience of the Directors is maintained at a high level with no single group representing more than 50% of the total

The overall diversity of the Board is at a satisfactory level. Extra effort would be spent in identifying suitable candidates in order to achieve a gender diversification in the Board.

The Board Diversity Policy is posted on the website of the Company.

Role and function of the Board and the management

The Board is responsible for overall strategic formulation and performance monitoring of the Group. It delegates day-to-day operations of the Company to the Executive Committee and senior management within the control and authority framework set by the Board. In addition, the Board has also delegated various responsibilities to the Audit Committee, the Remuneration Committee and the Nomination Committee. Further details of these committees are set out in this report.

Board meetings

The Board meets regularly and holds at least four Board meetings a year. Additional meetings will be arranged, if and when required. The Directors can attend meetings in person or through electronic means of communication in accordance with the bye-laws of the Company (the "Bye-laws").

BOARD OF DIRECTORS (continued)

Board meetings (continued)

The Company Secretary assists the Chairman in drawing up the agenda of each Board meeting. Draft agenda of each regular Board meeting will be sent to all Directors for review before the agenda is issued and all Directors may request for inclusion of other matters in the agenda. The Chairman will take into account the matters proposed by the Directors and where appropriate, approve the inclusion of such matters in the agenda of the Board meeting. Generally, at least 14-day notice of a regular Board meeting is given and the Company aims at giving reasonable notice for all other Board meetings. The Company also aims at sending the agenda and the accompanying board papers, which are prepared in a form and quality sufficient to enable the Board to make informed decisions on matters placed before it, to all Directors at least 3 days before the intended date of a Board meeting. Where queries are raised by Directors, prompt and full responses will be given if possible.

There has been procedure in place to enable Directors to seek independent professional advice in appropriate circumstances at the Company's expenses. The Board shall resolve to, upon reasonable request, provide separate independent professional advice to Directors to assist them in performing their duties to the Company.

The Company Secretary is responsible for taking minutes of Board meetings and Board committee meetings, draft and final versions of which would be sent to Directors for comments and records respectively, within a reasonable time after each meeting. Minutes are recorded in sufficient detail the matters considered and decisions reached, including any concerns raised by Directors or dissenting views (if any) expressed. Minutes of Board meetings and Board committees meetings are kept by the Company Secretary and are open for inspection by any Director/committee member.

If a substantial shareholder or a Director has a conflict of interest in a matter (including material transaction with connected persons) which the Board has determined to be material, the matter will be dealt with by a physical Board meeting, rather than a written resolution. Independent Non-executive Directors who, and whose close associates, have no material interest in the transaction should be present at the Board meeting.

Except for those circumstances permitted by the Bye-laws and all applicable laws, rules and regulations, a Director shall not vote on any Board resolution approving any contract or arrangement or any other proposal in which he or any of his close associates (or associates where the transaction or arrangement is a connected transaction under Chapter 14A of the Listing Rules) has a material interest nor shall he be counted in the quorum present at the meeting.

BOARD OF DIRECTORS (continued)

Attendance records

During the financial year ended 31 December 2018, the Directors have made active contribution to the affairs of the Group and eleven physical Board meetings were held to consider, among other things, various projects contemplated by the Group and to review and approve the interim results and annual results of the Group.

Details of the Directors' attendances in 2018 are as follows:

	Number of meeting(s) attended/eligible to attend
Executive Directors	
Xu Liang *(Chairman)*	11/11
Liu Dongsheng *(appointed with effect from 6 January 2018)*	10/10
Yang Junlin *(resigned with effect from 6 January 2018)*	1/1
Yuan Wenxin *(resigned with effect from 6 January 2018)*	0/1
Non-executive Directors	
Huang Donglin *(appointed with effect from 18 May 2018)*	7/7
Leung Shun Sang, Tony *(retired with effect from 18 May 2018)*	4/4
Independent Non-executive Directors	
Tam King Ching, Kenny	11/11
Yip Kin Man, Raymond	11/11
Fei Jianjiang *(appointed with effect from 29 March 2018)*	7/8
Wan Siu Wah, Wilson *(appointed with effect from 29 March 2018)*	8/8
Zhou Jianhong *(retired with effect from 18 May 2018)*	4/4

BOARD OF DIRECTORS (continued)

Access to information

The Board is supplied with sufficient explanation and information by the management to enable the Board to make an informed assessment of financial and other information put before it for approval. The management provides all Board members with monthly updates which give a balanced and understandable assessment of the Company's performance, position and prospects in sufficient details to enable the Board as a whole and each Director to discharge their duties. Where any Director requires more information than is volunteered by the management, each Director has the right to separately and independently access to the Company's senior management to make further enquiries if necessary.

Appointment and re-election of Directors

Appointment of new Directors is a matter for consideration by the Nomination Committee. The Nomination Committee will give adequate consideration to the Board Diversity Policy and review the profiles of the candidates and make recommendations to the Board on the appointment, re-appointment and nomination of Directors.

According to the Bye-laws, any Director so appointed by the Board shall hold office, in the case of filling a casual vacancy, only until the next following general meeting of the Company or, in the case of an addition to their number, until the next following annual general meeting of the Company who shall then be eligible for re-election at such general meeting. Every Director, except for the Chairman and the Managing Director, is subject to retirement by rotation at least once every three years. In order to comply with applicable laws of Bermuda, the Bye-laws do not require the Chairman and the Managing Director to retire by rotation. However, they will voluntarily retire and offer themselves for re-election at least once every three years in order to comply with the second part of code provision A.4.2 of the CG Code.

All Directors (including all Non-executive Directors) have entered into service agreements or letters of engagement with the Company for a term of not more than three years.

Independent Non-executive Directors

Pursuant to Rules 3.10(1) and 3.10(2) of the Listing Rules, the Company has appointed four Independent Non-executive Directors and one of them has appropriate professional qualifications or accounting or related financial management expertise.

Pursuant to Rule 3.10A of the Listing Rules, the number of Independent Non-executive Directors of the Company represents not less than one-third of the Board.

BOARD OF DIRECTORS (continued)

Independent Non-executive Directors (continued)

The Company has received from each of its Independent Non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and the Company considers that all of the Independent Non-executive Directors are independent.

Any re-election of an independent non-executive director who has served the board for more than nine years, his/her further appointment should be subject to a separate resolution to be approved by shareholders.

Where an individual is proposed to be elected as an Independent Non-executive Director at the general meeting, the circular to shareholders and/or explanatory statement accompanying the notice of the relevant general meeting will include:

- the process used for identifying the individual and why the Board believes the individual should be elected and the reasons why it considers the individual to be independent;

- if the proposed Independent Non-executive Director will be holding their seventh (or more) listed company directorship, why the Board believes the individual would still be able to devote sufficient time to the board;

- the perspectives, skills and experience that the individual can bring to the Board; and

- how the individual contributes to diversity of the Board.

Each of Mr. Tam King Ching, Kenny and Mr. Yip Kin Man, Raymond, who will retire and, being eligible, offer himself for re-election at the forthcoming annual general meeting of the Company, has served as an Independent Non-executive Director of the Company for more than nine years. As an Independent Non-executive Director with extensive experience and knowledge and in-depth understanding of the Company's operations and business, each of Mr. Tam and Mr. Yip has expressed objective views and given independent guidance to the Company over the past years, and he continues demonstrating a firm commitment to his role.

BOARD OF DIRECTORS (continued)

Independent Non-executive Directors (continued)

The Nomination Committee and the Board consider that: (i) Mr. Tam, being a Certified Public Accountant, is able to complement the professional background of the composition of the Board in terms of expertise in accounting and financial reporting; and (ii) Mr. Yip, being a practising solicitor, has extensive experience in legal profession. He is able to complement the professional background of the composition of the Board in terms of law and compliance. Notwithstanding Mr. Tam holds various company directorships in listed companies in Hong Kong, he devoted sufficient time in fulfilling his role in the Company. During the past year, he attended and actively participated in the discussions in all the eleven board meetings, three audit committee meetings, four nomination committee meetings and three remuneration committee meetings which he was eligible to attend.

The Nomination Committee and the Board consider that the long service of Mr. Tam and Mr. Yip would not affect their exercise of independent judgement and are satisfied that each of Mr. Tam and Mr. Yip has the required character, integrity and experience to continue fulfilling the role of an Independent Non-executive Director. The Company will state in a circular which will contain, among other things, the notice convening the forthcoming annual general meeting of the Company the reasons why the Nomination Committee and the Board consider both Mr. Tam and Mr. Yip are still independent and the recommendation to shareholders to vote in favor of the re-election of each of Mr. Tam and Mr. Yip as a Director. A separate resolution will be proposed for re-election of each of Mr. Tam and Mr. Yip at the Annual General Meeting.

Insurance for directors' and officers' liability

Appropriate insurance cover on directors' and officers' liabilities has been in force to protect the Directors and officers of the Group from their risk exposure arising from the businesses of the Group.

Directors' training and professional development

Every newly appointed Director will be given an introduction of regulatory requirements. Directors are continually updated on the latest development of the Listing Rules, legal and other regulatory requirements to ensure compliance and upkeep of good corporate governance practice. Directors are also encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. The Company Secretary facilitates induction and professional development of Directors and the Company is responsible for arranging and funding suitable training for the Directors.

BOARD OF DIRECTORS (continued)

Directors' training and professional development (continued)

All Directors have provided to the Company their records of training received during the financial year ended 31 December 2018, a summary of which is as follows:

	Continuous professional development	
Directors	**Type** (Note I)	**Subject** (Note II)
Xu Liang	A	1, 3
	B	3
Liu Dongsheng	A	1, 3
	B	3
Yang Junlin	B	3
Yuan Wenxin	B	3
Huang Donglin	A	1, 3
	B	3
Leung Shun Sang, Tony	A	1
	B	1, 3
Tam King Ching, Kenny	A	1, 2, 3
	B	3
Yip Kin Man, Raymond	A	1, 3
	B	3
Fei Jianjiang	A	1, 3
	B	3
Wan Siu Wah, Wilson	A	1, 3
	B	3
Zhou Jianhong	A	1, 3
	B	3

Note I:

A: Attending seminars, conferences, forums, in-house briefings or in-house training

B: Reading newspapers, journals and updates

Note II:

1: Laws, rules and regulations

2: Finance, accounting or taxation

3: Businesses relating to the Company

CHAIRMAN AND MANAGING DIRECTOR

The roles of Chairman and Managing Director are separate and exercised by different individuals to reinforce their independence and accountability. Mr. Xu Liang is the Chairman and Mr. Liu Dongsheng serves as the Managing Director of the Company. The Chairman provides leadership for the Board and ensures that the Board works effectively and performs its responsibilities. The Managing Director has overall chief executive responsibility for the Group's business development and day-to-day management generally. The division of responsibilities between the Chairman and the Managing Director is clearly established and set out in writing.

The responsibilities of the Chairman include, amongst other things:

- taking primary responsibility for ensuring that good corporate governance practices and procedures are established;

- ensuring that all Directors are properly briefed on issues arising at Board meetings, and ensuring that Directors receive, in a timely manner, adequate information which must be accurate, clear, complete and reliable;

- encouraging all Directors to make a full and active contribution to the Board's affairs and taking the lead to ensure that the Board acts in the best interest of the Company;

- encouraging Directors with different views to voice their concerns, allowing sufficient time for discussion of issues and ensuring that Board decisions fairly reflect Board consensus;

- ensuring that appropriate steps are taken to provide effective communications with shareholders and that their views are communicated to the Board as a whole; and

- promoting a culture of openness and debate by facilitating the effective contribution of Non-executive Directors in particular and ensuring constructive relations between Executive and Non-executive Directors.

During the year, the Chairman met with the Non-executive Directors (including Independent Non-executive Directors) without the presence of the Executive Directors.

BOARD COMMITTEES

The Board has established the following committees to oversee particular aspects of the Company's affairs and to assist in the execution of the Board's responsibilities. All committees have their own terms of reference. All resolutions passed by the committees will be reported to the Board at the next Board meeting.

Executive Committee

An Executive Committee of the Board was established in September 2005 with specific written terms of reference which deal clearly with its authorities and duties.

The Executive Committee has been conferred with the general powers of the Board (except those matters specifically reserved for the Board) to manage and oversee the operations of the Group and has been assigned with the responsibilities to perform the corporate governance duties as follows:

- to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;
- to review and monitor the training and continuous professional development of Directors and senior management;
- to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- to develop, review and monitor the code of conduct and compliance manual (if any) applicable to the Group's employees and Directors;
- to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report; and
- to conform to any requirement, direction, regulation that may from time to time be prescribed by the Board or contained in the constitution of the Company or imposed by legislation.

The Executive Committee comprises all Executive Directors of the Company.

BOARD COMMITTEES (continued)

Executive Committee (continued)

During the year, seven physical meetings of the Executive Committee were held. Amongst those meetings, one meeting was held for the purpose of performing the corporate governance duties. The attendances of the members of the Executive Committee at those meetings are as follows:

Committee members	Number of meeting(s) attended/eligible to attend
Xu Liang *(chairman of the committee)*	7/7
Liu Dongsheng *(appointed with effect from 6 January 2018)*	6/6
Yang Junlin *(resigned with effect from 6 January 2018)*	1/1
Yuan Wenxin *(resigned with effect from 6 January 2018)*	1/1

The major work in relation to the corporate governance of the Group performed by the Executive Committee during the year includes, among other things, the following:

- reviewing the Company's compliance with the CG Code and disclosure in the corporate governance report of the Company for the year ended 31 December 2017.

Audit Committee

An Audit Committee of the Board was established with specific written terms of reference which deal clearly with its authorities and duties. The terms of reference of the Audit Committee are posted on the websites of the Stock Exchange and the Company respectively.

The principal duties of the Audit Committee include, amongst other things:

- overseeing the relationship with the Company's auditor;
- reviewing the interim and annual financial statements;
- reviewing the Company's financial reporting system, risk management and internal control systems; and
- reviewing the arrangements that employees of the Company can use, in confidence, to raise concerns about possible improprieties in financial reporting, internal control or other matters.

BOARD COMMITTEES (continued)

Audit Committee (continued)

The Audit Committee has explicit authority to investigate any activity within its terms of reference and the authority to obtain outside legal or other independent professional advice, at the Company's expense, to perform its responsibilities if it considers necessary. It is given access to and assistance from the employees and reasonable resources to perform its duties properly.

The chairman of the Audit Committee is an Independent Non-executive Director and the Audit Committee comprised all Independent Non-executive Directors of the Company. None of the members of the Audit Committee are former partners of the auditor of the Company.

During the year, three physical meetings of the Audit Committee were held and the attendances of the members of the Audit Committee at those meetings are as follows:

Committee members	Number of meeting(s) attended/eligible to attend
Tam King Ching, Kenny *(chairman of the committee)*	3/3
Yip Kin Man, Raymond	3/3
Fei Jianjiang *(appointed with effect from 29 March 2018)*	2/2
Wan Siu Wah, Wilson *(appointed with effect from 29 March 2018)*	2/2
Zhou Jianhong *(retired with effect from 18 May 2018)*	1/1

The major work performed by the Audit Committee during the year included, amongst other things, the following:

- reviewing the final results of the Group for the financial year ended 31 December 2017;
- reviewing the interim results of the Group for the six months ended 30 June 2018; and
- monitoring, analyzing and reviewing connected transactions entered into by the Group during the year.

During the year, the Board had no disagreement with the Audit Committee's view on the selection, appointment, resignation or dismissal of the external auditor.

BOARD COMMITTEES (continued)

Nomination Committee

A Nomination Committee of the Board was established in September 2005 with specific written terms of reference which deal clearly with its authorities and duties. The terms of reference of the Nomination Committee are posted on the websites of the Stock Exchange and the Company respectively.

The principal duties of the Nomination Committee include, amongst other things:

- reviewing the structure, size and composition of the Board and making recommendations on any proposed changes to the Board to complement the Company's corporate strategy;
- identifying individuals suitably qualified to become Board members and selecting or making recommendations to the Board;
- making recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors;
- assessing the independence of Independent Non-executive Directors; and
- reviewing the Board Diversity Policy, as appropriate; and reviewing the measurable objectives that have been set for implementing the Board Diversity Policy, and reviewing the progress on achieving the objectives.

BOARD COMMITTEES (continued)

Nomination Committee (continued)

Where vacancies exist at the Board, candidates are proposed and put forward to the Nomination Committee for consideration. The recommendations of the Nomination Committee will then be tendered to the Board for approval. In considering the nomination of a new Director, the Nomination Committee will give adequate consideration to the Board Diversity Policy and take into account the qualification, ability, working experience, leadership and professional ethics of the candidates. In determining the independence of Directors, the Board follows the requirements set out in the Listing Rules.

The Nomination Committee has explicit authority to seek any necessary information from the employees within its scope of duties and the authority to obtain outside independent professional advice, at the Company's expense, to perform its responsibilities if it considers necessary.

The chairman of the Nomination Committee is the Chairman of the Board and the Independent Non-executive Directors of the Company constitute the majority of the Nomination Committee.

During the year, four physical meetings of the Nomination Committee were held and the attendances of the members of the Nomination Committee at those meetings are as follows:

Committee members	Number of meeting(s) attended/eligible to attend
Xu Liang *(chairman of the committee)*	4/4
Huang Donglin *(appointed with effect from 18 May 2018)*	1/1
Leung Shun Sang, Tony *(retired with effect from 18 May 2018)*	3/3
Tam King Ching, Kenny	4/4
Yip Kin Man, Raymond	4/4
Fei Jianjiang *(appointed with effect from 29 March 2018)*	1/1
Wan Siu Wah, Wilson *(appointed with effect from 29 March 2018)*	1/1
Zhou Jianhong *(retired with effect from 18 May 2018)*	3/3

BOARD COMMITTEES (continued)

Nomination Committee (continued)

The major work performed by the Nomination Committee during the year included, amongst other things, the following:

- assessing the independence of the Independent Non-executive Directors;
- considering and making recommendations to the Board on the re-election of Directors at the annual general meeting;
- considering and making recommendations to the Board for the appointment of Mr. Liu Dongsheng as Executive Director of the Company and a member of the Executive Committee;
- considering and making recommendations to the Board for the appointment of Mr. Huang Donglin as Non-Executive Director of the Company, a member of each the Nomination Committee and the Remuneration Committee;
- considering and making recommendations to the Board for the appointment of Mr. Fei Jianjiang and Mr. Wan Siu Wah, Wilson as Independent Non-Executive Directors of the Company, members of each the Audit Committee, the Nomination Committee and the Remuneration Committee; and
- reviewing the structure and composition of the Board with due regard for the benefits of diversity on the Board.

Remuneration Committee

A Remuneration Committee of the Board was established in September 2005 with specific written terms of reference which deal clearly with its authorities and duties. The terms of reference of the Remuneration Committee are posted on the websites of the Stock Exchange and the Company respectively.

BOARD COMMITTEES (continued)

Remuneration Committee (continued)

The principal duties of the Remuneration Committee include, amongst other things:

- making recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management of the Group;
- reviewing and approving the management's remuneration proposals with reference to the Company's goals and objectives;
- determining, with delegated responsibility, the remuneration packages of individual Executive Directors and senior management and making recommendations to the Board on the remuneration of Non-executive Directors;
- reviewing and approving compensation payable to Executive Directors and senior management and compensation arrangements relating to dismissal or removal of Directors for misconduct; and
- ensuring that no Director or any of his/her associates is involved in deciding his/her own remuneration.

The Remuneration Committee may consult the Chairman of the Board and/or the Managing Director of the Company about their remuneration proposals for other Executive Directors. It has explicit authority to seek any necessary information from the employees within its scope of duties and the authority to obtain outside independent professional advice, at the Company's expense, to perform its responsibilities if it considers necessary.

The remuneration policies for the Company as well as the Directors are market alignment and reward for performance. The Company reviews the remuneration package annually taking into consideration of the market practice, competitive market position and individual performance.

The chairman of the Remuneration Committee is an Independent Non-executive Director and the Independent Non-executive Directors of the Company constitute the majority of the Remuneration Committee.

BOARD COMMITTEES (continued)

Remuneration Committee (continued)

During the year, three physical meetings of the Remuneration Committee were held and the attendances of the members of the Remuneration Committee at those meetings are as follows:

Committee members	Number of meeting(s) attended/eligible to attend
Tam King Ching, Kenny *(chairman of the committee)*	3/3
Xu Liang	3/3
Huang Donglin *(appointed with effect from 18 May 2018)*	1/1
Leung Shun Sang, Tony *(retired with effect from 18 May 2018)*	2/2
Yip Kin Man, Raymond	3/3
Fei Jianjiang *(appointed with effect from 29 March 2018)*	1/1
Wan Siu Wah, Wilson *(appointed with effect from 29 March 2018)*	1/1
Zhou Jianhong *(retired with effect from 18 May 2018)*	2/2

The major work performed by the Remuneration Committee during the year included, amongst other things, the following:

- considering, reviewing and determining the remuneration and the terms of service agreement/engagement letters of Mr. Liu Dongsheng, Mr. Huang Donglin, Mr. Fei Jianjiang and Mr. Wan Siu Wah, Wilson; and
- considering, reviewing and determining the Company Directors' bonuses for the year 2018 and remuneration for the year 2019.

Details of remuneration paid to Directors and senior management for the year are set out in note 13 to the consolidated financial statements.

COMPANY SECRETARY

The Company Secretary supports the Board by ensuring good information flow within the Board and that board policy and procedures are followed. The Company Secretary is also responsible for advising the Board through the Chairman and/or the Managing Director of the Company on corporate governance and the implementation of the CG Code.

All Directors have access to the advice and services of the Company Secretary to ensure that board procedures, and all applicable laws, rules and regulations are followed. The selection, appointment and dismissal of the Company Secretary are subject to the Board approval.

The Vice President of SWCS Corporate Services Group (Hong Kong) Limited Ms. Yeung Ching Man has been appointed as the Company Secretary on 1 September 2018 and has taken no less than fifteen hours of relevant professional training during the Year and has complied with Rule 3.29 of the Listing Rules in relation to the professional training requirements. The primary contact person of Ms. Yeung Ching Man at the Company is Mr. Li Michael Hankin, the Deputy General Manager.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board is of the opinion that an appropriate and effective risk management and internal control system will contribute to the operational effectiveness and efficiency of the Group and to the safeguard of the Group's assets as well as the shareholders' investment.

The Board of the Group acknowledges its accountability to the risk management and internal control system and its responsibility to review the effectiveness of the system. The Board also clarifies that the system is purported to manage, but not eliminate, the risk of failure to fulfill business objectives, and can only provide reasonable but not absolute assurance against material misstatement or loss.

Our risk management and internal control system is embedded within our business processes so that it functions as an integral part of the overall operation of the Group. The system comprises a comprehensive organization structure with assignment of definite accountabilities and delegation of corresponding authorities to each post. Based on our organization structure, a reporting system has been developed including reporting channels from division heads of every principal business unit to the Executive Committee.

RISK MANAGEMENT AND INTERNAL CONTROL (continued)

Business plans and budgets are prepared by division heads of every principal business unit annually. In preparing them, our management identifies and evaluates any potential risks. Measures will be put in place with an aim to ultimately manage, control or lessen such risks.

These business plans and budgets are also subject to review and approval by the Executive Committee. The Executive Committee reviews monthly management reports on the operational and financial results of every principal business unit and measures the actual performance of the Group against the business plans and budgets concerned. In this course, the Executive Committee also reviews and assesses the effectiveness of all material controls and ensures the adequacies of resources, staff qualifications and experience, training programmes and budget of the Group's accounting, internal audit and financial reporting functions. The Executive Committee holds periodical meetings with the senior management of every principal business unit to, amongst other matters, address the issues in such controls, identify areas of improvement and put the appropriate measures in place.

The internal control systems of the Group are documented and, if any revision is required, such information will be submitted to the Audit Committee for evaluation.

The Audit Committee assists the Board to fulfill its oversight role over the Group's risk management and internal control function by reviewing and evaluating the effectiveness of our overall risk management and internal control system at least annually.

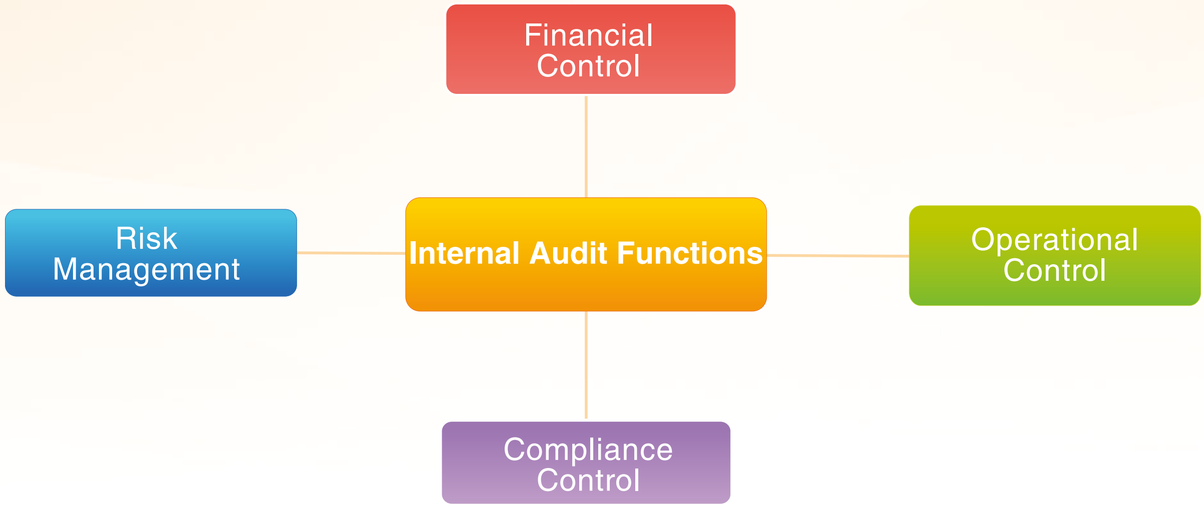
RISK MANAGEMENT AND INTERNAL CONTROL (continued)

The Company sets up an Internal Audit Department in February 2006 which assists the Board and the Audit Committee to discharge its duties in risk management and internal control aspects. The Internal Audit Department, independent to the operational departments of the Group, is responsible for conducting regular audits on the major activities of the Group and carrying out the analysis and independent appraisal of the adequacy and effectiveness of the risk management and internal control system of the Group. Its objective is to ensure that all material controls, including financial, operational and compliance controls as well as risk management, are in place and functioning effectively. The Internal Audit Department reports to the Board and the Audit Committee with its findings and makes recommendations to improve the risk management and internal control systems of the Group.

Risk management and internal control systems

RISK MANAGEMENT AND INTERNAL CONTROL (continued)

Internal audit functions



Based on the risk-based approach, the Internal Audit Department continuously review and monitor the sufficiency of the risk control measures of every business unit of the Group and to examine if relevant measures have been implemented. The procedures involve assuring of the existence of related risks in the first place, then assessing the levels to which the potential risks are attributed based on the following two risk factors, i.e., the level of significance of the risk and the possibility of occurrence. Afterwards, audit recommendations will be made and further discussed with the relevant management.

Level of significance	The level of significance of the risk to the business unit under review and its effect/impact on various aspects, including corporate finance, operations or reputation, upon occurrence of the risk.
Possibility	The possibility that the risk may occur under the current operation and internal control environment. Such possibility is only a subjective judgement and no statistical method or measurements have been applied.

The levels of risks to be determined after considering both risk factors:

Assessment basis of high-level risk

Potential Risk Incidence:

- level of significance (high) and possibility (high); or
- level of significance (high) and possibility (medium); or
- level of significance (medium) and possibility (high).

RISK MANAGEMENT AND INTERNAL CONTROL (continued)

Internal audit functions (continued)

Definition of high-level risk The potential risk is likely to occur. If it occurs, the overall operation or individual operational procedure and various aspects such as financial status, operational efficiency or results and corporate reputation may be significantly affected.

Assessment basis of medium-level risk Potential Risk Incidence:

- level of significance (medium) and possibility (medium); or
- level of significance (high) and possibility (low); or
- level of significance (low) and possibility (high).

Definition of medium-level risk The potential risk is likely to occur. If it occurs, the overall operation or individual operational procedure and various aspects such as financial status, operational efficiency or results and corporate reputation may be affected to a medium or lower extent. Or, the potential risk may cause significant impact to the overall operations or individual operational procedure, but the possibility is relatively low.

Assessment basis of low-level risk Potential Risk Incidence:

- level of significance (low) and possibility (low); or
- level of significance (medium) and possibility (low); or
- level of significance (low) and possibility (medium).

Definition of low-level risk The potential risk is unlikely to occur. Even if it occurs, the overall operation or individual operational procedure and various aspects such as financial status, operational efficiency or results and corporate reputation will not be significantly affected.

In addition, the key business unit of the Group has put in place a risk control mechanism specializing in risk management and internal control in respect of project approval and subsequent follow-up works of the business unit. It will also conduct regular reporting to the responsible person of the business unit. The Internal Audit Department will review on a regular basis the performance of the risk control department of the key business unit and will report to the management of the Group and members of the Audit Committee any audit issues found, the potential risks and appropriate audit recommendations in the internal audit reports every half a year.

RISK MANAGEMENT AND INTERNAL CONTROL (continued)

Internal audit functions (continued)

At the same time, according to the work plan completion status of the Internal Audit Department during the year, it is the duty of the Managing Director of the Group to review whether or not the Group's overall risk management and internal control system is under appropriate and effective management, and to provide a written statement in this regard to the Board during the year-end audit. The written statement to be provided to the Board shall confirm the followings:

- The risk management and internal control system has been put in place to provide reasonable assurance of fulfilling the planned business objectives of the Group and to avoid material financial misstatement or loss.

- It is his responsibility to design, operate and monitor the Group's risk management and internal control system and to conduct regular review on its effectiveness.

- He has regular reviewed the Group's risk management and internal control system. The report in respect of any significant error or deficiency (if any) of the risk management and internal control system has been submitted to the Board and all necessary measures have been taken or currently being taken to rectify any error or deficiency.

- A set of effective procedures for the review of risk management and internal control system has been formulated and its scope and frequency of review have been defined.

- In order to provide to the Board a statement in respect of the risk management and internal control, during the reporting period, he has assessed the internal control and risk management covering all important aspects including financial control, operational control, compliance control as well as risk control functionalities.

Based on the said written statement as provided by the Managing Director, the advices provided by the Audit Committee and the audit recommendations as set forth in the reports issued by the Internal Audit Department, the Board will continue to oversee management of the Group in supervising the relevant departments to set up initiatives to handle various kinds of deficiencies found in risk management and internal control. Regular reviews on the improvement progress will be conducted by the Internal Audit Department and the result of which will be reported to the Audit Committee and the Board.

RISK MANAGEMENT AND INTERNAL CONTROL (continued)

Internal audit functions (continued)

Finally, the Board considers that it is an ongoing and continuous process for the Group to review and improve its risk management and internal control systems in order to ensure that they can deal with the dynamic and ever changing business environment.

For the year ended 31 December 2018, the Board has been, through the Executive Committee and the Audit Committee with the assistance from the Internal Audit Department, continuously reviewing the effectiveness of the Group's risk management and internal control systems based on the following considerations:

- the changes, since the last review, in the nature and extent of significant risks and the Group's ability to respond to changes in business and the external environment;

- the scope and quality of management's ongoing monitoring of risks and of the internal control systems;

- the extent and frequency of communication of monitoring results to the Audit Committee and the Board which enables them to assess control of the Group and the effectiveness of risk management; and

- the effectiveness of the Group's processes for financial reporting and Listing Rules compliance.

During the year, internal audit reports in respect of the risk management and internal control system of the Group have been submitted by the Internal Audit Department to the Audit Committee and the Board for review. The Group has adopted appropriate audit recommendations to further improve its risk management and internal control system.

INSIDE INFORMATION DISCLOSURE POLICY

The Company adopted an inside information disclosure policy (the "Inside Information Disclosure Policy") on 21 December 2015 which sets out the procedures for the handling and dissemination of inside information with a view to preventing uneven, inadvertent or selective dissemination of inside information and ensuring shareholders and the public are provided with full, accurate and timely information about the activities and the financial condition of the Group. The Inside Information Disclosure Policy covers the following:

- setting out the processes for identifying, assessing and escalating potential inside information to the Board;
- setting out the responsibilities of officers in preserving the confidentiality of inside information, escalating upwards any such potential information and cascading down the message and responsibilities to relevant staff; and
- identifying who are the Company's authorized spokespersons and their responsibilities for communications with stakeholders of the Company.

In addition, the Company has communicated to all relevant staff regarding the implementation of the Inside Information Disclosure Policy.

The Board considers that the Company's existing measures are effective and appropriate compliance mechanisms to safeguard the Company and its officers in discharging their disclosure obligations in respect of inside information.

The Inside Information Disclosure Policy is posted on the website of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Listing Rules as a code of conduct of the Company for Directors' securities transactions.

Having made specific enquiry of all Directors, the Directors have complied with the required standard set out in the Model Code and the Company's code of conduct regarding Directors' securities transactions throughout the year ended 31 December 2018.

Employees who are likely to possess inside information in relation to the Company or its shares are required to prohibit from dealing in shares of the Company during the black-out period.

AUDITOR'S REMUNERATION

During the year, the remuneration paid/payable to the Company's auditor, Deloitte Touche Tohmatsu, is set out as follows:

Services rendered	HK$'000
Audit services	1,420
Non-statutory audit services:	
Review on interim financial report	648
Special audit services	5,090
	7,158

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for preparing financial statements of the Group which give a true and fair view of the state of affairs of the Group on a going concern basis and in presenting the annual and interim reports and other financial disclosures required under the Listing Rules, the Directors aim to present a balanced, clear and understandable assessment of the Group's position and prospects.

The statement of the auditor of the Company, Deloitte Touche Tohmatsu, about its reporting responsibilities on the consolidated financial statements of the Group is set out in the Independent Auditor's Report on pages 97 to 103 of this annual report.

COMMUNICATION WITH SHAREHOLDERS

On 22 March 2012, the Board adopted a Shareholders' Communication Policy reflecting the current practices of the Company for communication with its shareholders. Such policy aims at ensuring the shareholders of the Company are provided with ready, equal and timely access to balanced and understandable information about the Company, in order to enable shareholders to exercise their rights in an informed manner, and to allow shareholders to engage actively with the Company.

To foster effective communications with the shareholders, the Company provides extensive information in its annual and interim reports and announcements. All shareholders' communications are also available on the Company's website at www.shougang-grand.com.hk.

The annual general meeting of the Company provides a useful forum for shareholders to exchange views with the Board. All Directors will make an effort to attend. External auditor is also available at the annual general meeting to address shareholders' queries. In case of any general meeting to approve a connected transaction or any other transaction that is subject to independent shareholders' approval, members of the independent Board committee will also make an effort to attend to address shareholders' queries.

COMMUNICATION WITH SHAREHOLDERS (continued)

During the year, four general meetings were held by the Company. One of the general meeting was the annual general meeting of the Company held on 18 May 2018 (the "2018 AGM") while the other three were special general meetings of the Company held on 19 September, 7 December and 28 December 2018. The auditor of the Company, Deloitte Touche Tohmatsu, attended the 2018 AGM. Details of the Directors' attendances at general meetings are as follows:

Directors	**Number of meeting(s) attended/eligible to attend**
Executive Directors	
Xu Liang (*Chairman*)	4/4
Liu Dongsheng *(appointed with effect from 6 January 2018)*	3/4
Yang Junlin *(resigned with effect from 6 January 2018)*	0/0
Yuan Wenxin *(resigned with effect from 6 January 2018)*	0/0
Non-executive Directors	
Huang Donglin *(appointed with effect from 18 May 2018)*	2/3
Leung Shun Sang, Tony *(retired with effect from 18 May 2018)*	1/1
Independent Non-executive Directors	
Tam King Ching, Kenny	3/4
Yip Kin Man, Raymond	3/4
Fei Jianjiang *(appointed with effect from 29 March 2018)*	2/4
Wan Siu Wah, Wilson *(appointed with effect from 29 March 2018)*	4/4
Zhou Jianhong *(retired with effect from 18 May 2018)*	0/1

COMMUNICATION WITH SHAREHOLDERS (continued)

During the year, all notices of general meetings despatched by the Company to its shareholders for meetings held were sent for annual general meeting at least 20 clear business days before the meeting and at least 10 clear business days for all other general meetings. Separate resolutions were proposed at general meetings on each substantially separate issue, including the election of individual Directors, and all resolutions put to the vote of the general meetings were taken by way of a poll. At the general meetings, the chairman of the meetings explained the procedures for conducting a poll and answered questions from shareholders on voting by poll, if any. The results of the poll were published on the websites of the Stock Exchange and the Company respectively.

SHAREHOLDERS' RIGHTS

Convene a special general meeting

Shareholder(s) holding not less than one-tenth (10%) of the paid up capital of the Company carrying the right of voting at general meetings of the Company can make a requisition to convene a special general meeting pursuant to Clause 74 of the Companies Act 1981 of Bermuda (as amended). The requisition must state the purposes of the meeting, and must be signed by the shareholder(s) concerned and deposited at the registered office of the Company.

Put forward proposals at shareholders' meetings

Shareholder(s) representing not less than one-twentieth (5%) of the total voting rights of all the shareholders of the Company or of not less than 100 shareholders of the Company may by requisition, at their own expense unless the Company otherwise resolves, to put forward proposals at general meetings of the Company pursuant to Clauses 79 and 80 of the Companies Act 1981 of Bermuda (as amended). A written notice to that effect signed by the shareholder(s) concerned together with a sum reasonably sufficient to meet the expenses in giving effect thereto must be deposited at the registered office of the Company not less than six weeks before the meeting for requisition(s) requiring notice of a resolution, or not less than one week before the meeting for any other requisition(s).

Shareholders' enquiries

Specific enquiries or suggestions by shareholders can be sent in writing to the Board or the Company Secretary at the Company's principal office in Hong Kong or by email to the Company. In addition, shareholders can contact Tricor Tengis Limited, the Hong Kong branch share registrar and transfer office of the Company, if they have any enquiries about their shareholdings and entitlement to dividend. Relevant contact details are set out on page 2 of this annual report.

DIVIDEND POLICY

On 21 December 2018, the Company adopted a Dividend Policy. Such policy aims at providing stable and sustainable returns to shareholders through paying stable dividends.

Under the Dividend Policy, the Company intends to provide Shareholders with interim or final dividends, and to declare special dividends from time to time. The Company intends to pay out an annual dividend payment at a payout ratio of not less than 35% of the Group's consolidated net profit after tax for the then financial year after taking into consideration of, inter alia, the following factors:

The Group's

- current & future operations;
- earnings;
- financial position;
- cash requirements, cash expenditure & availabilities;
- investment requirements;
- future development prospects; and
- other factors as it may deem relevant at such time.

The recommendation of the payment of dividend is subject to the absolute discretion of the Board, and any declaration of final dividend for the year will be subject to the approval of our Shareholders.

Whilst the Dividend Policy reflects the Board's current views on the financial and cash flow position of the Group, such Dividend Policy will continue to be reviewed from time to time and it is subject to change. The Board will consider the dividends, if declared, will be paid in any particular amount for any given period. The payment of dividend is also subject to any restrictions under the Laws of Hong Kong, the Laws of Bermuda, and the Company's Bye-laws.

CONSTITUTIONAL DOCUMENTS

There is no change in the Company's constitutional documents during the year.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

I. ABOUT THIS REPORT

The purpose of this Environmental, Social and Governance report ("ESG Report") is not only to communicate with the stakeholders of Shougang Concord Grand (Group) Limited and its subsidiaries' (collectively, the "Group") regarding its sustainability strategies, management approaches and performances, but also to strengthen its understanding towards the ongoing activities in sustainable development of the societies and environment as a whole. This ESG Report summarizes the related system establishment and performance made by the Group during the year on the topics of corporate social responsibility and sustainable development.

The Group aims to develop its business objectives and create value for shareholders/investors, while at the same time protect the ecological environment by fully utilizing resources and minimizing the emission of pollutants during operation. The Group has been adhering to the philosophy of "Integrity, Pragmatism, Unity and Innovation" when conducting businesses in Hong Kong and Mainland China. The Group recognizes the importance of sustainable development and actively shoulders its environmental and social responsibilities. As a responsible and visionary corporate citizen, the Group has to strike the balance between each operational measure and the environment by continuously optimizing operational management, business strategies, environmental protection, talent management and social investments so as to contribute towards the sustainable development of the globe, human beings and our business.

Reporting Period and Scope

The ESG Report mainly covers the financial services, property investment and management business of the Group as an investment holding company with its relevant strategic approach to sustainability and performance within the environmental and social aspects. A summary of the environmental indicators and performance data are listed in the section of "Summary of Environmental Data and Performance", with the reporting period ended 31 December 2018.

Reporting Guideline

The ESG Report has been prepared in accordance with the Environmental, Social and Governance Reporting Guideline as set out in the Appendix 27 to the Listing Rules issued by the Hong Kong Stock Exchange.

II. STAKEHOLDER'S ENGAGEMENT

The Group is committed to maintaining the sustainable development of its business and providing support to environmental protection and the community in which it operates. The Group maintains close contacts with shareholders/investors, employees, clients, suppliers and other stakeholders and strives to balance their opinions and interests through constructive communication in order to determine the directions of its sustainable development. The Group evaluates and determines its environmental, social and governance risks and ensures that relevant risk management and internal control systems are operating properly and effectively. The following table shows our management responses to various expectations and requests by our stakeholders:

Stakeholders	Expectations and requests	Management response
Shareholders/ Investors	➤ Information transparency ➤ Business strategies and performance ➤ Corporate governance system	➤ Ensure transparency and efficient communications through periodic publications on websites of the Stock Exchange and the Group ➤ Set up comprehensive strategic plan for achieving business goals and objectives ➤ Management possesses relevant experience and professional knowledge to ensure business sustainability
Employees	➤ Career development ➤ Compensation and welfare ➤ Labor rights	➤ Provide equal opportunities in promotion, training and career development ➤ Establish fair, reasonable and competitive remuneration scheme ➤ Set up contractual obligations to protect labor rights

II. STAKEHOLDER'S ENGAGEMENT (continued)

Stakeholders	Expectations and requests	Management response
Clients	➢ Integrity ➢ High quality services ➢ Reasonable pricing	➢ Ensure contractual obligations are honored ➢ Provide high quality services continuously to maintain client satisfaction ➢ Provide various value-added services
Suppliers	➢ Corporate reputation ➢ Integrity ➢ Good relationship with the Group	➢ Maintain strong and long-term relationship ➢ Ensure contractual obligations are honored ➢ Establish policies and procedures in supply chain management

The Group highly regards any feedbacks from stakeholders on this report and our performance in pursuing sustainable development. Should there be any suggestions to the refinement of our sustainable development policies, please contact us via email at csr@shougang-grand.com.hk.

III. MATERIALITY MATRIX

During the reporting period, the Group has assessed a number of environmental, social and operational related issues, and evaluated their importance to stakeholders and the Group through various channels. This assessment has helped to ensure that the business development initiatives of the Group can fulfill the expectations and requirements of our stakeholders. Their matters of concern are presented in the following materiality matrix:

Materiality Matrix

Importance to Stakeholders	Low	Medium	High
High	◆ Anti-discrimination measures ➤ Suppliers management	◆ Staff training and promotion opportunity ◆ Staff compensation and welfare	➤ Customers satisfaction ◆ Occupational health and workplace safety ➤ Operational compliance
Medium	➤ Community contribution ◆ Preventive measures on child and forced labor	★ Greenhouse gas emissions ★ Use of resources	◆ Talent management ◆ Human rights protection
Low	★ Exhaust air emissions ★ Sewage discharge ★ Generation of hazardous wastes	★ Water resources utilization ★ Energy conservation measures ★ Generation of non-hazardous wastes	➤ Anti-corruption measures ➤ Client privacy protective measures

Importance to the Group

★ Environmental ◆ Employee ➤ Operation

IV. ENVIRONMENTAL PROTECTION

The Group always adheres to the management philosophy of sustainable development and endeavors to advocating environmental protection. Through various policies and activities, the Group aims to provide its employees with better understanding of the environmental impact caused by their living habits and our business operations so as to reduce carbon footprints. The Group wishes our employees can initiate themselves to change their own habits as a way of sending environmental protection messages across to their families, friends and business partners. Together we alleviate climate changes, thereby contributing our efforts to protect the environment.

1. Management of Emissions

The Group mainly involves in providing finance services and property investment and management within an office setting. Hence, not much greenhouse gases are generated during our operation. Our waste management mainly involves domestic wastes and collection of waste paper for recycling. Also, our daily operation will not cause any hazardous waste or air pollution. The impact of our domestic wastewater discharge on the environment is insignificant.

Management of Greenhouse gas emission

The environmental impact of our business activities mainly comes from the use of electricity in the office, fuel consumption by our own vehicles and flight travels for overseas assignments, thereby emitting greenhouse gas. The Group encourages our employees in the Mainland driving frequently to voluntarily pick any rest day or one day during festive holidays to ride on public transport or bicycle as substitution, thereby reducing greenhouse gas emissions. Besides, the Group also encourages our employees to use teleconferencing for meetings and reduce the frequency of business trips by flight.

Compliance

During the reporting period, there has not been any confirmed violation or non-compliance relating to emissions with a significant impact on the Group.

IV. ENVIRONMENTAL PROTECTION (continued)

2. Management of Use of Resources

The Group is fully aware of its responsibilities in environmental protection. Also, the Group continuously identifies and minimizes any behavior influencing the environment. The Group has committed to promoting its corporate culture on resource conservation by constantly reminding its employees that resources are precious. Various measures are targeted to build the habit of conservation among our employees and make the best use of resources.

Conversation of Energy

The Group emphasizes electricity conservation by promoting the use of energy-saving lightings. The Group uses automated electricity management system and encourages its employees to switch off air conditioners, computers, personal electronic devices and common office equipment after work and/or when they are idle. The Group endeavors to keep all electronic appliances well-maintained for raising the overall usage efficiency.

“Saving Electricity” sign posted in PRC subsidiary

IV. ENVIRONMENTAL PROTECTION (continued)

2. Management of Use of Resources (continued)

***Conversation of Energy** (continued)*

During the reporting period, the Group consumed approximately 74.56 megawatt hours of electricity, including two months' data by its newly acquired subsidiary in Beijing. The room temperature of its Hong Kong and PRC office needs to be kept at a level suitable to our employees, therefore local climate change might have directly affected energy consumption. As a result, electricity consumption during the reporting period has been increased by approximately 12% when compared to that in 2017. The Group will continue to monitor the implementation of various energy conservation policies and try our best to reduce electricity consumption.

Regarding the level of gasoline consumption, the Group has replaced an old vehicle with a new model during the reporting period and therefore led to a drop from 14,091 liters in 2017 to 11,476 liters in 2018.

	Unit	2018	2017
Electricity:			
Consumption	Megawatt hours	74.56	66.82
Intensity	Megawatt hours (per employee)	*1.82*	*1.26*
Gasoline:			
Consumption	Liters	11,476	14,091
Intensity	Liters (per employee)	*279.90*	*265.86*

With reference to the guidelines of Greenhouse Gas Protocol after combining with regional emission factors, our greenhouse gas emission level has been calculated from the above data. During the reporting period, the Group has generated 142.50 tonnes of CO_2 equivalent emissions, increased by approximately 10% when compared to that of last year. The intensity of CO_2 equivalent emissions was 3.48 tonnes (per employee) after considering the factor of an overall reduction in number of employees. The Group will continue to focus more on the reduction of emissions in our operational activities.

IV. ENVIRONMENTAL PROTECTION (continued)

2. Management of Use of Resources (continued)

***Conversation of Energy** (continued)*

	Unit	2018	2017
Greenhouse gas emission:			
Scope 1:			
Emission	Tonnes	28.94	36.22
Scope 2:			
Emission	Tonnes	64.78	55.07
Scope 3:			
Emission	Tonnes	48.78	37.49
Total	Tonnes	142.50	128.78
Intensity	Tonnes (per employee)	*3.48*	*2.43*

Conservation of Water

The Group encourages its employees to make the best use of water resources and reduce wastage through practicing water conservation actions in everyday life. The Group also enhances their self-awareness in this aspect, for example, by posting the "Saving Water" sign in toilets and reminds them to reduce wasting potable water. During the reporting period, the Group has consumed 535.62 tonnes of water, resulting in an around 24% increment when compared to that of 2017 (see the table below). One of the reasons was due to the re-location of its Hong Kong headquarter to a new office during the fourth quarter of 2018 with the new set up of separate potable water supply in its pantry. The Group will keep on enhancing the awareness of our employees in water saving.

"Saving Water" sign in the toilet of PRC subsidiary

IV. ENVIRONMENTAL PROTECTION (continued)

2. Management of Use of Resources (continued)

Conservation of Water *(continued)*

	Unit	2018	2017
Water:			
Consumption	Tonnes	535.62	430.59
Intensity	Tonnes (per employee)	*13.06*	*8.12*

Conservation of Paper

Paper is a type of valuable resources. As a method to reduce paper wastage, the Group encourages its employees to adopt the principle of "Think before you print" and carefully select documents for printing. The Group encourages file distributions using electronic format and to make photocopy and/or print on both sides. The Group also encourages its employees to fully utilize papers by reusing single-side used papers and collect double-sided used papers for recycling. During the reporting period, the Group has consumed approximately 0.52 tonnes of paper, decreased by approximately 26% when compared to that of last year.

	Unit	2018	2017
Paper:			
Consumption	Tonnes	0.52	0.70
Intensity	Tonnes (per employee)	*0.01*	*0.01*

Compliance

During the reporting period, there has not been any confirmed violation or non-compliance relating to use of resources with a significant impact on the Group.

IV. ENVIRONMENTAL PROTECTION (continued)

3. The Environment and Natural Resources

The Group strives for the caring and protection of the natural environment with the hope of starting from everyone. Through adopting appropriate policies, measures and actions on various waste sources, the Group targets to enhance environmental awareness among its employees, thereby using them as role models for their families, friends and business partners, in order to build up powerful cohesive forces for alleviating the impacts from climate changes. Waste recycling bins are placed nearby our office and also inside our pantry for collecting recyclable wastes such as paper, metal and plastic. The Group hopes that every employee can support and contribute to environmental protection.

Recycling bins nearby the office

Recycling bins inside the office pantry

V. EMPLOYMENT AND LABOR PRACTICES

As employees are viewed as core assets of the Group, a comprehensive talent management scheme has been established to attract and retain competent talents for the sustainable, long-term development of our business. According to the Employee Handbook, our recruitment policy is fair that no candidates should be discriminated against their race, color, religion, national origin, political affiliation, age and gender. The Group devotes to create a non-discriminate, equal, harmonious and safe workplace, with the objective of building up good relationship and mutual respect with employees.

The Group has established various communication channels for collecting feedbacks from our employees, such as our webpage, emails, and face-to-face meetings; so that they can raise any suggestions and express their thoughts. Also, the Group takes into account their feedbacks when making management decisions. This can strengthen their sense of belonging and enhance more interactions with our management. At the same time, our employees can make use of these channels for reporting to our management should there be any infringement on their personal rights.

Talent Selection

The Group is a fair opportunity employer and has implemented fair and non-discriminating policies in our hiring and recruitment process. The Group also devotes to protect the human rights and privacy of our employees. Appropriate candidates are selected based on their knowledge, ability, morality and job requirements. Impartial employment opportunities are provided to all individuals, regardless of their age, sex, sexual orientation, race, disability, marital status, pregnancy, religion or political affiliation. The Group also provides equal opportunities to all employees regarding their benefits, promotion, performance appraisal, training and career development and works closely together with the aim of achieving a win-win situation.

Labor Standards

The Group emphasizes human rights and prohibits any form of unethical hiring practices, including child labor and forced labor. Policies and procedures have been established in order to comply with the local labor laws and regulations. Identity documents are inspected during the hiring process and the Group never hires any applicant under the legal working age.

V. EMPLOYMENT AND LABOR PRACTICES (continued)

Compensation and Welfare

The Group regularly examines the salary level of all staffing grades with reference to the current market standard. The salary levels are reviewed and adjusted once per year according to attendance records, staff performance, years of services, general market conditions and other relevant factors. Our performance appraisal process is an open, two-way communication, which allows our employees to gain better understanding on their job requirements and the Group to set up suitable staff training and development plans. The Group strives to establish a fair, reasonable and competitive remuneration scheme, based on the knowledge, skill sets, job scopes and performances of all employees.

The Group strictly complies with the national and local labor laws and regulations. Employees are entitled to paid leaves, such as annual leaves, sick leaves, marriage leaves, funeral leaves, maternity leaves and paternity leaves. The Group participates in the MPF scheme for their retirements and also their working hours are in line with the local laws and regulations. The Group handles dismissal and compensation in accordance with the national laws and regulations.

The Group has established staff recognition award programs such as service awards, wedding gifts and child birth gifts. In recognition of the long-serving employees, the Group provides proof of service and offers souvenir for those who have been working with us for 10 years. The Group has also launched special caring programs, such as when employees get married or give birth gifts are presented to female staff and the spouse of male staff. Through these programs, the Group would also like to encourage them not only working hard, but also sparing more time for caring their families.

For enhancing cohesiveness among employees and their sense of belonging, the Group organizes regular gatherings, including various luncheons and dinners, movie appreciation and outdoor activities, etc. for reducing their work pressure.

V. EMPLOYMENT AND LABOR PRACTICES (continued)

Development and Training

In order to support long-term business development of the Group and to map the career plan for our employees, the Group has established comprehensive training programs for building up an excellent, professionally trained and responsible corporate team. This not only enhances the quality and capability of our employees, but also raises the cohesiveness among them, thereby resulting in increased productivity. New hires are provided with orientation training so as to give them better understanding about our corporate culture, business philosophy, development history, management practices, business scope, employee rights and obligations, and our talent development plan. This is to ensure that they can readily adapt and integrate into our work environment.

In addition, the Group also provides various on-the-job trainings including integrated or departmental trainings and external trainings. These trainings are organized by relevant departments by themselves or through the human resources and administration department. Their contents include new or updated management systems and regulations, new group policies and relevant professional knowledge, delivered via flexible, practical group training formats.

For external trainings, the Group invites various professionals to hold expert seminars based on our topical needs. Employees are also encouraged to search for work-related training courses for themselves and propose them for enrolment, in which the Group will subsidize them to attend.

V. EMPLOYMENT AND LABOR PRACTICES (continued)

Development and Training (continued)

Training related to financial reporting analysis held in PRC subsidiary

Training related to financial leasing held in PRC subsidiary

V. EMPLOYMENT AND LABOR PRACTICES (continued)

Health and Safety

The Group adopts a comprehensive approach to the health and work safety of our employees, including various preventive measures on illnesses and injuries. A first aid kit with over-the-counter medicines can be located in our human resources and administration department. If any employee experiences physical discomfort or needs first aid, our colleagues are encouraged to take care of each other and provide assistance until the ambulance arrives. The Group also emphasizes the importance of fire safety in the office with fire evacuation routes being prominently displayed on all notice boards.

In addition, our PRC subsidiaries encourage employees to adopt healthy lifestyle during their spare time, with free-of-charge gymnasium being provided. The Group hopes that our employees can pursue the healthy lifestyle habit through regular exercises and feel more energetic at work.

Compliance

During the reporting period, the Group did not have any violations relating to labor practices and health and safety.

VI. OPERATING PRACTICES

Supply Chain Management

The Group emphasizes long-term and stable strategic partnerships with good-quality intermediaries and suppliers, thereby developing together on the basis of equality and mutual benefit. Regarding this aspect, our PRC subsidiaries have implemented strict procedures for hiring intermediaries through establishing a vetting committee. The Group requires our intermediaries to have sound accreditation, solid internal management system, stable service quality, reasonable pricing, trustworthy legal compliance and possess appropriate professional skills. The Group only works with intermediaries with similar ethical values and standards. When intermediaries are found to have violated our policies or contractual requirements, the Group will terminate the cooperation until such situations improve. This is to ensure that all our intermediaries are competitive and capable of offering high quality services.

VI. OPERATING PRACTICES (continued)

Service Responsibility

The Group is dedicated to satisfying our client expectation with the spirit of pursuing excellence and continuous improvement. With technological advancement and improved living standard, our clients increasingly demand for high quality services. The Group has established policies and procedures on service quality control, covering the process of service delivery, communicating with clients to ensure their needs and expectations are fulfilled and their satisfactory level with our services. This serves as the basis upon which the Group continuously improves our services. If our clients have any issues on services being rendered, they can give us feedbacks or complain to us. The Group commits to respond on the same-day as to any complaints being made. The Group will then promptly handle these cases and follow up until them being resolved. After the compliant settlement, our responsible departments have to keep all documentations properly and conduct a thorough review so as to formulate measures for preventing similar incidents. The Group can also take the opportunity to improve their service quality further.

The Group emphasizes our responsibilities of confidentiality and complying with relevant laws and regulations regarding data privacy protection. All employees are strictly prohibited to disclose or misuse any information related to transactions or operations of the Group, commercial secrets or other confidential information of clients for their own personal interests. All confidential information and items must be properly kept by authorized personnel only.

The Group understands the importance of timely information disclosures and competent financial management to our stakeholders such as clients, investors, regulators and employees. During the reporting period, the Group is proud to have been awarded the “China Excellence IR Best Information Disclosure Award” and “Best listed company CFO Award”, reflecting our commitment to achieving the higher standards in corporate governance.

VI. OPERATING PRACTICES (continued)

Service Responsibility (continued)

The Group has been awarded
the "China Excellence IR Best Information Disclosure Award"

The CFO of our Group has been awarded the
"Best listed company CFO Award"

Compliance

During the reporting period, there was no violation or non-compliance relating to our service responsibilities with a significant impact on the Group. Also, no complaints concerning breaches of customer privacy and loss of data have been received.

VI. OPERATING PRACTICES (continued)

Anti-corruption

The Group believes that the virtues of fairness, honesty and integrity are important assets and adopts a zero-tolerance approach on any kind of corruption, bribery, extortion, fraud and money laundering. The Group resolutely fights against corruption and strives to contribute to the building of an honest, upright society. Our employees at the headquarter have participated in a work ethics seminar organized by the Hong Kong Independent Commission Against Corruption. On the other hand, our employees in the PRC are required to sign the "Anti Commercial Bribery Agreement" with the subsidiary for preventing commercial briberies, safeguarding our legitimate rights and interests and maintaining good business disciplines. The Group has also established a whistleblowing policy. If our employees reasonably believe that there is any kind of misconduct, they can report the case in person or by writing. The Group will then appoint appropriate personnel or form a specialized committee for investigating the incident. The Group will not disclose the identity of whistleblower without his or her consent. In addition, the Group also requires that all our business partners not bribing our employees under any form.

Compliance

During the reporting period, the Group and our employees were not involved in any litigation cases of corruption.

VII. COMMUNITY INVESTMENT

The Group actively contributes and facilitates the development of a healthy, sustainable financial leasing industry. One of our PRC subsidiaries, South China International Leasing Co., Ltd. (the "SCIL"), has been serving as the Vice President Unit of the Shenzhen Financial Leasing Association (the "SFLA") since 2015. The SFLA is a non-profit organization formed by the Shenzhen-based enterprises engaged in finance leasing for establishing the provincial industry self-disciplinary system, and strengthening the communication between industry participants and the SFLA, thereby achieving the win-win goals for all parties. During the reporting period, SCIL assisted SFLA in organizing various conferences, symposia and talent training programs. SCIL will continue contributing to the sustainable development of the SFLA and the industry. In addition, SCIL is also the Executive Vice President Unit of the Fourth Council Committee of the Shenzhen General Chamber of Commerce (the "SGCC"). As an influential, comprehensive association in the PRC, SGCC was established in December 2005 to fulfill its social responsibility.

VII. COMMUNITY INVESTMENT (continued)

Vice president unit of the SFLA

Executive vice president of the SGCC

Finally, as a caring corporate citizen, the Group keeps on contributing to the community by supporting various charitable organizations. During the reporting period, the Group regularly participates in various charitable activities such as joining the elderly visit during the dragon boat festival with the aim to help those in need.

The Group is a responsible taxpayer and spares no effort in easing local unemployment pressure by offering job opportunities to local people. The Group assists our employees to prepare and plan for retirement by paying into the “Five Insurances and Housing Provident Fund” for our employees in the Mainland and “Mandatory Provident Fund” for employees in Hong Kong. The Group consistently follows the best operating practices and maintains its orderly development. To certain extent, the Group has contributed to maintaining social stability and building a harmonious community.

VIII. SUMMARY OF ENVIRONMENTAL DATA AND PERFORMANCE

	Unit	Notes	2018	2017
Greenhouse gas emission:				
Scope 1:		1		
Emission	Tonnes		28.94	36.22
Scope 2:		2		
Emission	Tonnes		64.78	55.07
Scope 3:		3		
Emission	Tonnes		48.78	37.49
Total	Tonnes		142.50	128.78
Intensity	Tonnes (per employee)		*3.48*	*2.43*
Air emission:				
Nitrogen oxides	Tonnes		2.45	3.01
Intensity	Tonnes (per employee)		*0.06*	*0.06*
Sulfur oxides	Tonnes		0.19	0.24
Intensity	Tonnes (per employee)		*0.01*	*0.01*
Particles	Tonnes		0.26	0.32
Intensity	Tonnes (per employee)		*0.01*	*0.01*
Energy and water consumption:				
Electricity:				
Consumption	Megawatt hours		74.6	66.8
Intensity	Megawatt hours (per employee)		*1.82*	*1.26*
Gasoline:				
Consumption	Liters		11,476	14,091
Intensity	Liters (per employee)		*279.90*	*265.86*
Water:				
Consumption	Tonnes		535.6	430.6
Intensity	Tonnes (per employee)		*13.06*	*8.12*
Paper:				
Consumption	Tonnes		0.5	0.7
Intensity	Tonnes (per employee)		*0.01*	*0.01*

Notes:

1 Scope 1 refers to the Group's business direct GHG emissions, including combustion of gasoline.

2 Scope 2 refers to the Group's business indirect GHG emissions, including consumption of purchased electricity.

3 Scope 3 refers to the indirect GHG emissions that occur outside the Group's business, including the business trip of employees through flights.

IX. "ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING GUIDELINE" BY THE HONG KONG STOCK EXCHANGE

Key Performance Indicators ("KPIs")	Reporting Guideline	Pages
	A. Environmental	
Aspect A1	**Emissions**	
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	54-59
KPI A1.1	The types of emissions and respective emissions data.	57
KPI A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	69
KPI A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	N/A
KPI A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	N/A
KPI A1.5	Description of measures to mitigate emissions and results achieved.	54-59
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	59

IX. "ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING GUIDELINE" BY THE HONG KONG STOCK EXCHANGE (continued)

Key Performance Indicators ("KPIs")	Reporting Guideline	Pages
	A. Environmental	
Aspect A2	**Use of Resources**	
General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	54-59
KPI A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (MWh) and intensity (e.g. per unit of production volume, per facility)	56
KPI A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	57-58
KPI A2.3	Description of energy use efficiency initiatives and results achieved.	55-57
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	57-58
KPI A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	N/A[1]
Aspect A3	**The Environment and Natural Resources**	
General Disclosure	Policies on minimising the issuer's significant impact on the environment and natural resources.	54-59
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	54-59

IX. "ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING GUIDELINE" BY THE HONG KONG STOCK EXCHANGE (continued)

Key Performance Indicators ("KPIs")	Reporting Guideline	Pages
	B. Social[2]	
Aspect B1	**Employment**	
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	60
Aspect B2	**Health and Safety**	
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	64
Aspect B3	**Development and Training**	
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	62-63
Aspect B4	**Labor Standards**	
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labor.	60

IX. "ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING GUIDELINE" BY THE HONG KONG STOCK EXCHANGE (continued)

Key Performance Indicators ("KPIs")	Reporting Guideline	Pages
	B. Social[2]	
Aspect B5	**Supply Chain Management**	
General Disclosure	Policies on managing environmental and social risks of the supply chain.	64
Aspect B6	**Service Responsibility**	
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to services provided and methods of redress.	65-66
Aspect B7	**Anti-corruption**	
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	67
Aspect B8	**Community Investment**	
General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	67-68

Notes:

1 The Group's main businesses are the provision of financial services, property investment and management services. We did not generate any hazardous waste and use any packaging materials.

2 Pursuant to Appendix 27 of the "Main Board Listing Rules", the KPIs under Subject Area B "Social" are recommended disclosures only. Therefore, the Group choose not to disclose those KPIs.

REPORT OF THE DIRECTORS

The Directors herein present their report and the audited consolidated financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The activities of its principal subsidiaries and associates are set out in notes 45 and 20 to the consolidated financial statements.

RESULTS

The results of the Group for the year ended 31 December 2018 and the state of affairs of the Group at that date are set out in the consolidated financial statements on pages 104 to 230 of this annual report.

The Board of Directors of the Company does not recommend the payment of any dividend in respect of the year (2017: Nil).

BUSINESS REVIEW

The business review of the Group for the year ended 31 December 2018 is set out in the sections headed "Chairman's Statement" and "Management Discussion and Analysis" on pages 11 to 12 and pages 13 to 19 of this annual report respectively.

FIVE-YEAR FINANCIAL SUMMARY

A summary of the published results and of the assets and liabilities of the Group for the last five financial years is set out on pages 231 to 232 of this annual report.

INVESTMENT PROPERTIES

Details of movements in the investment properties of the Group during the year are set out in note 17 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the Company's share capital during the year are set out in note 35 to the consolidated financial statements. Shares were issued during the year for a rights issue. Details about the issue of shares are also set out in note 35 to the consolidated financial statements.

DONATIONS

No charitable donation was made by the Group during the year (2017: Nil).

DIRECTORS

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

Xu Liang	
Liu Dongsheng	*(appointed with effect from 6 January 2018)*
Huang Donglin	*(appointed with effect from 18 May 2018)*
Tam King Ching, Kenny*	
Yip Kin Man, Raymond*	
Fei Jianjiang*	*(appointed with effect from 29 March 2018)*
Wan Siu Wah, Wilson*	*(appointed with effect from 29 March 2018)*
Yang Junlin	*(resigned with effect from 6 January 2018)*
Yuan Wenxin	*(resigned with effect from 6 January 2018)*
Leung Shun Sang, Tony	*(retired with effect from 18 May 2018)*
Zhou Jianhong*	*(retired with effect from 18 May 2018)*

* *Independent Non-executive Directors*

In accordance with bye-law 99 of the bye-laws of the Company, Mr. Huang Donglin, Mr. Tam King Ching, Kenny and Mr. Yip Kin Man, Raymond, will retire and, being eligible, offer themselves for re-election at the Annual General Meeting.

DIRECTORS' INDEMNITIES AND INSURANCE

As permitted by the Company's bye-laws, 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 or she may sustain or incur in or about the execution of the duties of his or her office or otherwise in relation thereto.

The Company has arranged appropriate directors' and officer's liability coverage for the directors and officers of the Company.

DIRECTORS' SERVICE CONTRACTS

No Director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company, 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 or administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 31 December 2018, none of the Company's Directors, chief executives or their respective associates had any other personal, family, corporate and other interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of 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 Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code").

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed in the sections headed "Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures" and "Share Option Schemes" herein, at no time during the year was the Company or any of its subsidiaries, its parent company or any subsidiary of its parent company a party to any arrangement to enable the Company's Directors or their respective spouses or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS

No transactions, arrangements and contracts that is significant in relation to the Group's business to which the Company or any of its subsidiaries, its parent company or any subsidiary of its parent company was a party and in which a Director of the Company or his/her connected entities had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Pursuant to Rule 8.10 of the Listing Rules, the following Director has declared interests in the following business (other than those businesses where the Directors of the Company were appointed as directors to represent the interests of the Company and/or any member of the Group) which is considered to compete or are likely to compete, either directly or indirectly, with the businesses of the Group during the year:

Name of Director	Name of entity whose businesses are considered to compete or likely to compete with the businesses of the Group	Description of business of the entity which is considered to compete or likely to compete with the businesses of the Group	Nature of interest of the Director in the entity
Xu Liang	Shougang Holding#	Property investment	Director

Such business may be carried out through the subsidiaries or associates of the entity concerned or by way of other forms of investments.

DIRECTORS' INTERESTS IN COMPETING BUSINESS (continued)

The Board of the Company is independent from the board of the above-mentioned entity and is accountable to the Company's shareholders. Coupled with the diligence of its Independent Non-executive Directors whose views carry significant weight in the Board's decisions, the Group is capable of carrying on its businesses independently of, and at arm's length from, the businesses of this entity.

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

As at 31 December 2018, according to the register kept by the Company under Section 336 of the SFO, the following companies and persons had interests or short positions in the shares and/or underlying shares of the Company which fell to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO:

Long positions in the shares/underlying shares of the Company

Name of shareholder	Capacity in which interests were held	Number of shares/ underlying shares	Interests as to % of the issued share capital of the Company as at 31.12.2018	*Note(s)*
Shougang Group Co., Ltd. ("Shougang Group")	Interests of controlled corporations	2,025,736,972	50.53%	*1*
Shougang Holding (Hong Kong) Limited ("Shougang Holding")	Interests of controlled corporations	2,025,736,972	50.53%	*1*
Wheeling Holdings Limited ("Wheeling")	Beneficial owner	2,025,736,972	50.53%	*1*
Yip Wang Ngai	Interests of controlled corporation	213,600,000	5.33%	*2*
HY Holdings Limited ("HY Holdings")	Beneficial owner	213,600,000	5.33%	*2*
Mak Siu Hang Viola	Interests of controlled corporations	672,710,538	16.78%	*3*
VMS Investment Group Limited	Beneficial owner	183,750,000	4.58%	*3*
Master Competent Limited	Interests of controlled corporations	488,960,538	12.20%	*3*
VMS Holdings Limited	Interests of controlled corporations	488,960,538	12.20%	*3*
Fastlane Global Investments Limited	Interests of controlled corporations	488,960,538	12.20%	*3*
VMS Securities Holdings Limited	Interests of controlled corporations	488,960,538	12.20%	*3*
VMS Financial Group Limited	Interests of controlled corporations	488,960,538	12.20%	*3*
VMS Securities Limited	Beneficial owner	488,960,538	12.20%	*3*

Notes:

1. Shougang Group indicated in its disclosure form dated 31 October 2018 (being the latest disclosure form filed up to 31 December 2018) that as at 31 October 2018, its interest in the Company was held by Shougang Holding, a wholly-owned subsidiary of Shougang Group. Shougang Holding's interest in the Company was the shares held by Wheeling, a wholly-owned subsidiary of Shougang Holding.

2. Mr. Yip Wang Ngai indicated in his disclosure form dated 30 June 2015 (being the latest disclosure form filed up to 31 December 2018) that as at 29 June 2015, his interest in the Company was held by HY Holdings which in turn was held as to 80% by Mr. Yip Wang Ngai.

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO (continued)

Long positions in the shares/underlying shares of the Company (continued)

Notes:

3. Ms. Mak Siu Hang Viola indicated in her disclosure form dated 28 December 2018 (being the latest disclosure form filed up to 31 December 2018) that as at 28 December 2018, (i) VMS Securities Limited, which is a company controlled by her, holds 488,960,538 Shares; and (ii) VMS Investment Group Limited, which is a company wholly owned by her, holds 183,750,000 Shares. VMS Securities Limited is wholly owned by VMS Financial Group Limited, which in turn is wholly owned by VMS Securities Holdings Limited and in turn, wholly owned by Fastlane Global Investments Limited. Fastlane Global Investments Limited is wholly owned by VMS Holdings Limited. VMS Holdings Limited is owned as to 59.80% by Ms. Mak Siu Hang Viola and 32.20% by Master Competent Limited, which is wholly owned by Ms. Mak Siu Hang Viola.

Save as disclosed above, as at 31 December 2018, the Company has not been notified of any other person (other than the Directors and chief executives of the Company) who had an interest or short position in the shares and/or underlying shares of the Company which fell to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO.

CONTROLLING SHAREHOLDERS' INTEREST IN CONTRACTS OF SIGNIFICANCE

Save as disclosed in the section headed "Connected Transactions" below, at no time during the year had the Company or any of its subsidiaries, and the controlling shareholder (as defined under the Listing Rules) or any of its subsidiaries entered into any contract of significance or any contract of significance for the provision of services to the Company or any of its subsidiaries by the controlling shareholder or any of its subsidiaries.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors of the Company, there is a sufficiency of public float of the Company's securities as required under the Listing Rules as at the date of this annual report.

SHARE OPTION SCHEMES

On 7 June 2002, the shareholders of the Company adopted the 2002 Scheme which would be valid for a period of ten years. On 25 May 2012, the shareholders of the Company approved the termination of the 2002 Scheme (to the effect that no further share option shall be granted by the Company under the 2002 Scheme) and the adoption of a new share option scheme (the "2012 Scheme"), which became effective on 29 May 2012 upon the Listing Committee of the Stock Exchange granting its approval to the listing of, and permission to deal in, the shares of the Company which may fall to be issued upon exercise of the options to be granted under the 2012 Scheme. The share options granted under the 2002 Scheme prior to its termination shall continue to be valid and exercisable in accordance with the 2002 Scheme.

SHARE OPTION SCHEMES (continued)

A summary of the principal terms of each of the 2002 Scheme and the 2012 Scheme is set out below:

(a) The 2002 Scheme

The purpose of the 2002 Scheme is to enable the Company to grant share options to selected participants as incentives or rewards for their contribution to the Company and/or its subsidiaries and/or its associated companies. The 2002 Scheme was adopted on 7 June 2002 and terminated on 29 May 2012.

Under the 2002 Scheme, the Directors may, at their discretion, offer directors (including executive and non-executive directors), executives, officers, employees or shareholders, of the Company or any of its subsidiaries or any of its associated companies, and any suppliers, customers, consultants, advisers, agents, partners or business associates who will contribute or have contributed to the Company or any of its subsidiaries or any of its associated companies, share options to subscribe for shares of the Company.

As at 1 January 2018, the total number of shares of the Company which may be issued upon exercise of all outstanding share options granted under the 2002 Scheme is 40,770,000. During the year, 35,950,000 share options lapsed on 22 January 2018, being the expiry date of the relevant exercise period; 600,000 share options were held by a consultant and lapsed on 12 May 2018 with her resignation as a consultant with effect from 12 April 2018; and 700,000 share options were held by an employee and lapsed on 1 July 2018 due to her resignation. As a result of the completion of the rights issue on 31 October 2018, adjustments have been made to the outstanding options of 3,520,000 in accordance with the terms and conditions of the Share Option Scheme, so that with effect from 31 October 2018, the exercise price has been adjusted from HK$0.54 to HK$0.53 and the number of shares entitled to be subscribed for under the outstanding options has been adjusted from 3,520,000 to 3,586,880. Save as the lapse of share options and adjustments to the share options as referred to above, no options have been exercised, cancelled or lapsed under the 2002 Scheme during the year ended 31 December 2018. Accordingly, the number of shares comprised in the outstanding options under the Share Option Scheme was 3,586,880 as at 31 December 2018, which represents approximately 0.09% of the issued share capital of the Company as at the date of this annual report. For details of adjustments to share options under the 2002 Scheme, please refer to the Company's announcement dated 31 October 2018.

SHARE OPTION SCHEMES (continued)

(a) The 2002 Scheme (continued)

As the 2002 Scheme was terminated on 29 May 2012, no further options can be granted under the 2002 Scheme since then. However, the share options granted under the 2002 Scheme prior to its termination shall continue to be valid and exercisable in accordance with the 2002 Scheme.

Each of the grantees was required to pay HK$1.00 as a consideration for the grant of share options in accordance with the 2002 Scheme. The offer of share options must be accepted within 60 days from the date of offer.

Save as disclosed above, there is no material difference in the terms, which shall be disclosed pursuant to Rule 17.09 of the Listing Rules, between the 2002 Scheme and the 2012 Scheme.

No share option was granted, exercised or cancelled in accordance with the terms of the 2002 Scheme during the year. Details of the outstanding share options under the 2002 Scheme during the year are as follows:

	Options to subscribe for shares of the Company						
Category or name of grantees	At the beginning of the year	Lapsed during the year	Adjustment as a result of the right issue	At the end of the year	Date of grant	Exercise period	Exercise price per share
Directors of the Company							
Yuan Wenxin ("Mr. Yuan")[1]	6,000,000	(6,000,000)[4]	–	–	22.01.2008	22.01.2008 – 21.01.2018	HK$0.724
Leung Shun Sang, Tony ("Mr. Leung")[2]	8,000,000	(8,000,000)[4]	–	–	22.01.2008	22.01.2008 – 21.01.2018	HK$0.724
Tam King Ching, Kenny	1,150,000	(1,150,000)[4]	–	–	22.01.2008	22.01.2008 – 21.01.2018	HK$0.724
Yip Kin Man, Raymond	1,150,000	(1,150,000)[4]	–	–	22.01.2008	22.01.2008 – 21.01.2018	HK$0.724
Zhou Jianhong ("Ms. Zhou")[3]	1,150,000	(1,150,000)[4]	–	–	22.01.2008	22.01.2008 – 21.01.2018	HK$0.724
	17,450,000	(17,450,000)	–	–			
Employees of the Group	4,220,000	(700,000)[5]	66,880[6]	3,586,880	14.12.2010	14.12.2010 – 13.12.2020	HK$0.530[6]
Other participants	18,500,000	(18,500,000)[4]	–	–	22.01.2008	22.01.2008 – 21.01.2018	HK$0.724
	600,000	(600,000)[7]	–	–	14.12.2010	14.12.2010 – 13.12.2020	HK$0.540
	19,100,000	(19,100,000)	–	–			
	40,770,000	(37,250,000)	66,880	3,586,880			

SHARE OPTION SCHEMES (continued)

(a) The 2002 Scheme (continued)

Notes:

1. Mr. Yuan resigned as an executive director of the Company with effect from 6 January 2018.

2. Mr. Leung retired as non-executive director of the Company with effect from the conclusion of the annual general meeting ("AGM") of the Company held on 18 May 2018.

3. Ms. Zhou retired as independent non-executive director of the Company with effect from the conclusion of the AGM of the Company held on 18 May 2018.

4. Such share options lapsed on 22 January 2018, being the expiry date of the relevant exercise period.

5. Such share options were held by an employee and lapsed on 1 July 2018 due to her resignation.

6. The number of share options and exercise price have been adjusted to reflect the rights issue completed on 31 October 2018.

7. Such share options were held by a consultant and lapsed on 12 May 2018 with her resignation as a consultant with effect from 12 April 2018.

(b) The 2012 Scheme

The purpose of the 2012 Scheme is to replace the 2002 Scheme and to continue to enable the Company to grant share options to selected participants as incentives or rewards for their contribution or potential contribution to the Company and/or any of its subsidiaries and/or any entity in which any member of the Group holds any equity interest (the "Invested Entities"). The 2012 Scheme shall be valid and effective for the period of ten years commencing on 25 May 2012, being the date on which the 2012 Scheme was conditionally adopted by the shareholders of the Company, and ending on 25 May 2022 (both dates inclusive).

Under the 2012 Scheme, the Board may, at its discretion, offer full-time or part-time employees, executives, officers or directors (including executive and non-executive directors) of the Company or any of its subsidiaries or any of the Invested Entities, and any advisors, consultants, agents, suppliers, customers and distributors, who, in the sole opinion of the Board, will contribute or have contributed to the Company and/or any of its subsidiaries and/or any of the Invested Entities, share options to subscribe for shares of the Company.

SHARE OPTION SCHEMES (continued)

(b) The 2012 Scheme (continued)

No share option has been granted under the 2012 Scheme since its adoption. The maximum number of shares of the Company available for issue upon exercise of all share options which may be granted under the 2012 Scheme is 115,219,246, representing approximately 2.87% of the issued share capital of the Company as at the date of this annual report. The total number of shares of the Company issued and which may fall to be issued upon the exercise of share options to be granted under the 2012 Scheme and any other share option scheme(s) of the Company (including exercised, cancelled and outstanding share options) to each grantee in any 12-month period up to the date of grant shall not exceed 1% of the issued share capital of the Company as at the date of grant. Any further grant of share options in excess of this 1% limit shall be subject to the issue of a circular by the Company and shareholders' approval in a general meeting. In addition, any share options granted to a substantial shareholder or an Independent Non-executive Director of the Company, or to any of their associates, which would result in the shares of the Company issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of the offer of such grant (a) representing in aggregate over 0.1% of the shares of the Company in issue on the date of the grant; and (b) having an aggregate value of in excess of HK$5,000,000 (based on the closing price of the Company's shares as stated in the daily quotations sheet of the Stock Exchange on the date of each grant), such further grant of options shall be subject to the issue of a circular by the Company and shareholders' approval in a general meeting on a poll at which the grantee, his/her associates and all core connected persons of the Company shall abstain from voting in favour of the resolution concerning the grant of such options, and/or such other requirements prescribed under the Listing Rules from time to time. A connected person of the Company will be permitted to vote against the grant only if his intention to do so has been stated in the circular. Any grant of share options to a Director, chief executive or substantial shareholder of the Company, or to any of their associates, is required to be approved by the Independent Non-executive Directors (excluding the Independent Non-executive Director who is the grantee of the options).

The period during which a share option may be exercised will be determined by the Board at its absolute discretion, save that no share option may be exercised more than 10 years after it has been granted under the 2012 Scheme. There is no requirement that a share option must be held for any minimum period before it can be exercised but the Board is empowered to impose at its discretion any such minimum period at the time of offer of any share options.

SHARE OPTION SCHEMES (continued)

(b) The 2012 Scheme (continued)

The exercise price in relation to each share option will be determined by the Board at its absolute discretion and shall not be less than the highest of (i) the closing price of the shares of the Company as stated in the daily quotations sheet of the Stock Exchange on the date of offer of share options; (ii) the average closing price of the shares of the Company as stated in the daily quotations sheets of the Stock Exchange for the five business days immediately preceding the date of offer of share options; and (iii) the nominal value of a share of the Company on the date of offer of share options. Each of the grantees is required to pay HK$1.00 as a consideration for his acceptance of the grant of share options in accordance with the 2012 Scheme. The offer of share options must be accepted within 30 days from the date of the offer.

Share options to be granted under the 2012 Scheme do not confer rights on the holders to dividends or to vote at general meetings.

No share option has been granted under the 2012 Scheme since its adoption. Accordingly, as at 31 December 2018, there was no share option outstanding under the 2012 Scheme.

EQUITY-LINKED AGREEMENTS

Save as disclosed in the sections headed “Share Option Schemes” herein, no equity-linked agreements that will or may result in the Company issuing shares or that require the Company to enter into any agreements that will or may result in the Company issuing shares were entered into by the Company during the year or subsisted at the end of the year.

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

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company’s listed securities (whether on the Stock Exchange or otherwise) during the year.

PRE-EMPTIVE RIGHTS

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

DISTRIBUTABLE RESERVES

At the end of the reporting period, the Company had distributable reserves of approximately HK$13,251,000.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, revenue from sales of goods and rendering of services to the Group's five largest customers accounted for approximately 89% of the total revenue from sales of goods and rendering of services for the year and revenue from sales of goods and rendering of services to the largest customer included therein amounted to approximately 24%. Purchases from the Group's five largest suppliers accounted for approximately 98% of the total purchases for the year and purchases from the largest supplier included therein amounted to approximately 52%. None of the Directors of the Company or any of their close associates or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the number of issued shares of the Company) had any beneficial interest in the Group's five largest customers and suppliers.

CONNECTED TRANSACTIONS

The following connected transactions were entered during the year and up to the date of this annual report:

(i) Connected Transaction – Formation of Joint Venture

On 19 April 2018, Gold Cosmos Development Limited ("Gold Cosmos"), a wholly-owned subsidiary of the Company, entered into a joint venture agreement with 北京首鋼基金有限公司 (Beijing Shougang Fund Co., Ltd.*) ("Shougang Fund") to establish a joint venture namely 北京京西供應鏈管理有限公司 (Beijing Jingxi Supply Chain Management Co., Ltd.* ("Beijing Jingxi Supply Chain")), engaging in the business of supply chain financial management services. Shougang Fund is a wholly-owned subsidiary of Shougang Group, which is the holding company of Shougang Holding. The joint venture has an initial registered capital of RMB100 million. Among which, the Group and Shougang Fund invested RMB10 million and RMB90 million respectively, represented 10% and 90% of the registered capital of the joint venture. The Board believed that the establishment of the joint venture with Shougang Fund would enable the Group to team up with a fast developing fund company in the Beijing-Hebei area to enhance the development of supply chain technology business of the Group. The joint venture would also present the Group with a financial management service platform to develop its supply chain finance business in the PRC and to facilitate the strategic advancement of the supply-side structural reform of the PRC. On 13 June 2018, Gold Cosmos entered into a capital increase agreement with Shougang Fund and Beijing Jingxi Supply Chain for Gold Cosmos to contribute additional capital to Beijing Jingxi Supply Chain. For the details of the transaction, please refer to announcements dated 19 April 2018, 13 June 2018, 31 December 2018 and circular dated 4 September 2018.

CONNECTED TRANSACTIONS (continued)

(ii) Major and Connected Transaction – Acquisition of 41.41% of a Factoring Services Company

On 13 June 2018, On Hing Investment Company, Limited, a wholly-owned subsidiary of the Company, entered into a share sale agreement with 北京服務新首鋼股權創業投資企業（有限合夥）(Beijing Services New Shougang Venture Capital Investment LLP*) ("Beijing Services New Shougang") and 京西商業保理有限公司 (Beijing West Business Factoring Company Limited*) ("Beijing West Business Factoring") to acquire 41.41% equity interest of Beijing West Business Factoring. Beijing Services New Shougang is an associate of and is controlled by Shougang Fund. The consideration for the acquisition is RMB75,262,645.50 (equivalent to approximately HK$92,227,596), which was determined with reference to a valuation of the sale shares as at 31 March 2018 based on the market approach as determined by a qualified independent valuer. The consideration was payable by the purchaser in one lump sum within sixty business days from the second day of the completion of the share sale agreement, and in any case shall not be later than the long stop date which has been extended to 31 May 2019. Upon completion of the acquisition, Beijing West Business Factoring will be accounted for as an associate company of the Company. The acquisition is being carried out to align with strategy the Company for developing new business model and innovative financial services. The revenue to be generated from fees and interest income from the business factoring services by Beijing West Business Factoring will provide an additional income stream to the Group in the form of share of profit from an associate company. The acquisition was approved by independent shareholders in the special general meeting on 19 September 2018. For the details of the transaction, please refer to announcements dated 13 June 2018, 31 December 2018 and circular dated 4 September 2018.

CONNECTED TRANSACTIONS (continued)

(iii) Discloseable and Connected Transaction – Acquisition of 85.7143% of a Supply Chain Financial Consulting and Enterprise Management Financing Services Company

On 13 June 2018, Grand Cheers Property Limited, a wholly-owned subsidiary of the Company, entered into a share sale agreement with 京冀協同發展示範區(唐山)基金管理有限公司 (Jingji Cooperative Development Demonstration Zone (Tangshan) Fund Management Co., Ltd.*) ("Jingji Cooperative") and 首華京西協同創新(北京)科技發展有限公司 (Shouhua Jingxi Cooperative Innovation (Beijing) Technology Development Co., Ltd.*) ("Shouhua Jingxi Cooperative Innovation") to acquire 85.7143% of the equity capital of Shouhua Jingxi Cooperative Innovation. Shouhua Jingxi Cooperative Innovation is principally engaged in the provision of supply chain financial consulting services and management services. Jingji Cooperative is a subsidiary of Shougang Concord International Enterprises Company Limited ("Shougang International", Stock code: 697). Shougang International is a subsidiary of Shougang Holding. The consideration for the acquisition was RMB1,500,000 (equivalent to approximately HK$1,838,115), which was determined with reference to the valuation of the sale shares as at 30 April 2018 based on the asset approach as determined by a qualified independent valuer. Under the terms of the share sale agreement, the purchaser will be responsible for the outstanding capital contribution obligation to the sale shares in the amount of RMB58,500,000. The consideration of the acquisition, i.e. RMB1,500,000, will be payable by the purchaser in one lump sum within sixty business days from the second day of the completion of the share sale agreement, and in any case shall not be later than 31 December 2018. Upon completion of the acquisition, Shouhua Jingxi Cooperative Innovation will become a non-wholly owned subsidiary of the Company. The Company believed that with the acquisition, it expected to generate return from the provision of referral and corporate finance advisory services and acting as general partners of private equity funds. The revenue stream to the Group would then be diversified. The acquisition was approved by independent shareholders in the special general meeting on 19 September 2018 and had been completed. For the details of the transaction, please refer to announcement dated 13 June 2018 and circular dated 4 September 2018.

CONNECTED TRANSACTIONS (continued)

(iv) Major and Connected Transaction – Capital Increase

On 13 June 2018, Gold Cosmos, a wholly-owned subsidiary of the Company, entered into a capital increase agreement with Shougang Fund and Beijing Jingxi Supply Chain for Gold Cosmos to contribute additional capital to Beijing Jingxi Supply Chain. According to the capital increase agreement, Gold Cosmos will contribute an amount of RMB200,000,000 as additional capitals to Beijing Jingxi Supply Chain and thereby increasing its shareholding in Beijing Jingxi Supply Chain from 10% to 70%. The amount of additional capital to be contributed to Beijing Jingxi Supply Chain was determined by the parties with reference to the expected capital requirement of the Beijing Jingxi Supply Chain based on its business development plan. Upon completion of the transaction, Beijing Jingxi Supply Chain will become a non-wholly owned subsidiary of the Company. The Company believed that the added investment in Beijing Jingxi Supply Chain would allow it to develop more swiftly in the fast growing supply chain finance business in the PRC and, in turn, would further enlarge its return on investment. The acquisition was approved by independent shareholders in the special general meeting on 19 September 2018. On 31 December 2018, a supplemental agreement was entered into such that the party of the Group to the capital increase agreement was changed from Gold Cosmo to 悦康融滙投資咨詢(深圳)有限公司 (Ecko Investment Company Limited*) and the long stop date of the transaction and the deadline for payment of the additional capital under the capital increase agreement was extended to 30 June 2019. For the details of the transaction, please refer to announcements dated 13 June 2018, 31 December 2018 and circular dated 4 September 2018.

CONNECTED TRANSACTIONS (continued)

(v) Major and Connected Transaction – Disposal of an associate company

On 21 November 2018, SCG Investment (BVI) Limited ("SCG Investment", a wholly owned subsidiary of the Company), as vendor, entered into a sale and purchase agreement with Shougang Holding, as purchaser, in relation to the restructuring by way of disposal of Upper Nice Assets Ltd. ("Upper Nice", a wholly owned subsidiary of the Company), which holds 619,168,023 shares, representing approximately 40.78% equity interests, of Global Digital Creations Holdings Limited ("GDC", Stock Code: 8271), at a consideration of HK$154,792,005.75 to be paid by electronic transfer of funds on completion date. The terms of the sale and purchase agreement were determined by arm's length negotiations between SCG Investment and Shougang Holding after taking into account of, among other things, the market value of the assets to be restructured and the net asset value of the GDC. Upon completion, Upper Nice would cease to be a subsidiary of the Company. The business development of the Group and the existing business of GDC and its subsidiaries are not complimentary from a strategic prospective. The implementation of the restructuring would enable the Group to effectively consolidate its asset portfolio, as well as progression in executing such strategy. The acquisition was approved by independent shareholders in the special general meeting on 28 December 2018 and the disposal was completed on 8 January 2019. For the details of the transaction, please refer to announcement dated 21 November 2018 and circular dated 10 December 2018.

CONNECTED TRANSACTIONS (continued)

(vi) Connected Transaction – Formation of Joint Venture

On 26 December 2018, Eldex Investment Company Limited ("Eldex Investment"), a wholly-owned subsidiary of the Company, entered into a joint venture agreement with 成都首鋼絲路股權投資基金有限公司 (Chengdu Shougang Silk Road Equity Investment Fund Co., Ltd.*, "Shougang Silk Road") and 成都武侯資本投資管理集團有限公司 (Chengdu Wuhou Capital Investment Management Group Co., Ltd.*, "Wuhou Capital") to establish a joint venture, namely 首成融資租賃(成都)有限公司 (Shoucheng Finance Lease (Chengdu) Co., Ltd.*, "Shoucheng Finance Lease") to engage in the business of finance lease and related services. Shougang Silk Road is a corporate fund 50% owned by Shougang Fund which is a wholly-owned subsidiary of Shougang Group. Wuhou Capital and its ultimate owners are independent of and not connected with the Company and its connected persons. Shoucheng Finance Lease would have a registered capital of RMB100 million, which has been determined by the parties after arm's length negotiations by reference to its expected capital requirement. According to the joint venture agreement, the amount of registered capital to be contributed by Eldex Investment, Shougang Silk Road and Wuhou Capital were RMB25 million, RMB40 million and RMB35 million respectively. Upon completion of the transaction, the Group's investment in Shoucheng Finance Lease will be equity accounted for in the financial statement of the Company. Shoucheng Finance Lease will be based in Chengdu. Its establishment will enable the Group to be involved in the finance leasing market in western China, thereby expanding the Group's coverage in the region. The formation of Shoucheng Finance Lease has not yet completed. For the details of the transaction, please refer to announcement dated 26 December 2018.

CONNECTED TRANSACTIONS (continued)

The following continuing connected transactions were recorded during the year and up to the date of this annual report:

(i) Shougang Group – 2015 Master Facility Agreement

As stated in the announcement of the Company dated 15 April 2015 and in the circular dated 26 May 2015, a master facility agreement was entered into between the Company and Shougang Group on 26 March 2015 (the "2015 Master Facility Agreement").

Pursuant to the 2015 Master Facility Agreement, the Company has agreed to provide, or procure its subsidiaries to provide facilities by way of entrusted payment and/or finance lease to Shougang Group and/or its subsidiaries in an amount of up to RMB8,000,000,000 for a term of 3 years from 19 June 2015, the date on which the condition precedent for the 2015 Master Facility Agreement was fulfilled and the 2015 Master Facility Agreement became effective (the "2015 Facilities").

For the 2015 Facilities provide by way of entrusted payment and/or finance lease, the interest rate payable by the borrower or the lessee shall be at a rate equal to the cost of lending of the Company (or its subsidiaries) plus 1% to 5%.

The annual cap of the 2015 Facilities for each of the financial years ending 31 December 2015, 31 December 2016, 31 December 2017, 31 December 2018, 31 December 2019, 31 December 2020 and 31 December 2021 is RMB5,000,000,000, taken into account of the expected maximum outstanding balance of the facilities owed by the Shougang Group and/or its subsidiaries under the 2015 Master Facility Agreement for each relevant year.

The entering into of the 2015 Master Facility Agreement will enable the Group to earn a net interest income under the 2015 Master Facility Agreement.

As at the date of the 2015 Master Facility Agreement, Shougang Group was the holding company of Shougang Holding which in turn was a controlling shareholder and connected person of the Company. As such, the transactions contemplated under the 2015 Master Facility Agreement constituted continuing connected transactions for the Company under Chapter 14A of the Listing Rules. As one or more of the applicable percentage ratios for the transactions contemplated under the 2015 Master Facility Agreement (including the annual caps) exceed 100%, the 2015 Master Facility Agreement constituted both a non-exempt continuing connected transaction and a very substantial acquisition for the Company under the Listing Rules.

CONNECTED TRANSACTIONS (continued)

(i) Shougang Group – 2015 Master Facility Agreement (continued)

The 2015 Master Facility Agreement was subject to approval by the independent shareholders of the Company in accordance with the requirements of the Listing Rules.

The 2015 Master Facility Agreement and the annual caps thereunder were approved, confirmed and ratified by the independent shareholders of the Company on 19 June 2015.

(ii) Shougang Group – 2018 Master Facility Agreement

As the 2015 Master Facilities Agreement between the Company and the Shougang Group in relation to the provision by the Group of the 2015 facilities to the Shougang Group expired on 18 June 2018, the Company entered into another master facilities agreement with Shougang Group on 8 June 2018 (the "2018 Master Facility Agreement").

Pursuant to the 2018 Master Facility Agreement, the Company has agreed to provide, or procure its subsidiaries to provide facilities by way of entrusted payment, finance lease and/or credit financing to Shougang Group and/or its subsidiaries in an amount of up to RMB5,000,000,000 for a term of 3 years from 8 June 2018, the date on which the condition precedent for the 2018 Master Facility Agreement was fulfilled and the 2018 Master Facility Agreement became effective (the "2018 Facilities").

For the 2018 Facilities provide by way of entrusted payment, finance lease and/or credit financing, the interest rate payable by the borrower or the lessee shall be at a rate equal to the cost of lending of the Company (or its subsidiaries) plus 1% to 5%, subject to a cap of 10%.

The annual cap of the 2018 Facilities for each of the financial years ending 31 December 2018 to 2024 shall be RMB1,500,000,000 each year, taken into account of the expected level of financing required by Shougang Group and its subsidiaries based on published public information on Shougang Group, and the amount of financing that the Group is expected to be able to secure to finance the 2018 Facilities, for each relevant year.

The entering into of the 2018 Master Facility Agreement will enable the Group to earn a net interest income under the 2018 Master Facility Agreement.

CONNECTED TRANSACTIONS (continued)

(ii) Shougang Group – 2018 Master Facility Agreement (continued)

As at the date of the 2018 Master Facility Agreement, Shougang Group was the holding company of Shougang Holding which in turn was a controlling shareholder and connected person of the Company. As such, the transactions contemplated under the 2018 Master Facility Agreement constituted continuing connected transactions for the Company under Chapter 14A of the Listing Rules. As one or more of the applicable percentage ratios for the transactions contemplated under the 2018 Master Facility Agreement (including the annual caps) exceed 5%, the 2018 Master Facility Agreement constituted a non-exempt continuing connected transaction for the Company under the Listing Rules.

The 2018 Master Facility Agreement was subject to approval by the independent shareholders of the Company in accordance with the requirements of the Listing Rules.

The 2018 Master Facility Agreement and the annual caps thereunder were approved, confirmed and ratified by the independent shareholders of the Company on 7 December 2018.

For the details of the transaction, please refer to the announcements of the Company dated 8 June 2018 and 20 November 2018 and in the circular dated 20 November 2018.

(iii) Tenancy Agreement and Master Services Agreement

As stated in the announcement of the Company dated 31 October 2018, the Company entered into the following transactions on 31 October 2018:

(A) Long Cosmos Investment Limited (an indirect wholly-owned subsidiary of the Company), as tenant, entered into a tenancy agreement with Billioncorp Development Limited (an indirect wholly-owned subsidiary of Shougang Holding) as landlord, in relation to the lease of office premise at a monthly rent of HK$195,500, exclusive of rates and management fees, for the three years ending 31 October 2021 (the "Tenancy Agreement"). The payment under the Tenancy Agreement should be made in advance on the first day of each and every calendar month without deduction. The annual cap of the tenancy agreement for each of the years ending 31 October 2019, 31 October 2020, and 31 October 2021 is HK$2.5415 million, HK$2.346 million and HK$2.346 million respectively, taken into account of the payment commitment of monthly rent under the tenancy agreement.

CONNECTED TRANSACTIONS (continued)

(iii) Tenancy Agreement and Master Services Agreement (continued)

(B) the Company entered into a master services agreement with Shougang Holding for a term of three years commencing from 31 October 2018 to 31 October 2021 (the "Master Services Agreement"). Under which, Shougang Holding would provide to the Company advisory services covering areas in business and operational, investment management and financial management disciplines, treasury and risk management, key managerial recruitment and retention as well as other operating practices and procedures, accounting, corporate advisory, legal, company secretarial and other services. The Company agreed to reimburse the actual costs of the services incurred by Shougang Holding by reference to a specified percentage of the remuneration of members of the staff providing the Services to the Company, with annual payment capped at HK$2.88 million each of the three years ending 31 October 2019, 31 October 2020, and 31 October 2021. The annual caps were determined after taken the maximum payment obligation under the Master Services Agreement.

Given both the Tenancy Agreement and the Master Services Agreement relate to the use of the office premise and the service rendered in the office premise, these transactions shall be aggregated according to the requirements of Rule 14A.81 of the Listing Rules. Based on the transaction amounts of the two transactions in aggregate, certain applicable percentage ratios are above 0.1% but all relevant percentage ratios are less than 5%. In accordance with Rule 14.76(2) of the Listing Rules, the Tenancy Agreement and the Master Services Agreement together with the respective annual cap for the three years ending 31 October 2021 are exempt from the circular (including independent financial advice) and the Independent Shareholders' approval requirements.

For details, please refer to the announcement of the Company dated 31 October 2018.

Pursuant to Rule 14A.55 of the Listing Rules, the independent non-executive directors of the Company must review the continuing connected transactions carried out under the 2015 Master Facility Agreement, the 2018 Master Facility Agreement, the Tenancy Agreement and the Master Services Agreement during the year and confirm whether the transactions thereunder had been entered into:

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

(ii) on normal commercial terms or better; and

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

CONNECTED TRANSACTIONS (continued)

The auditors of the Company have provided a letter to the Board of Directors of the Company confirming the matters stated in Rule 14A.56 of the Listing Rules in respect of the continuing connected transactions under 2015 Master Facility Agreement, the 2018 Master Facility Agreement, the Tenancy Agreement and the Master Services Agreement took place during the year.

The transactions regarding finance income and other financial services income set out in note 44(a) to the consolidated financial statements were connected transactions which had been approved by the independent shareholders of the Company.

The transactions regarding consultancy fee expense, management fee expense and rental expenses set out in note 44(a) to the consolidated financial statements were connected transactions which were exempt from circular and shareholders' approval requirements under the Listing Rules.

The transactions set out in notes 44(b) and 44(c) to the consolidated financial statements under the heading of "Related Party Transactions" did not constitute connected transactions under the Listing Rules.

As far as the transactions set out in note 44(d) to the consolidated financial statements are concerned, the remuneration of the Directors as determined pursuant to the service contracts entered into between the Directors and the Group were connected transactions which were exempt from any disclosure and shareholders' approval requirements under the Listing Rules.

DISCLOSURE UNDER RULE 13.18 OF THE LISTING RULES

1. Pursuant to the loan agreement entered into between South China International Leasing Company Limited ("South China Leasing") and Wing Lung Bank Limited ("Wing Lung Bank") on 16 November 2015 in relation to a loan in the amount of RMB1,000,000,000 (the "Loan"), South China Leasing undertook with Wing Lung Bank that, unless Wing Lung Bank otherwise agrees in writing, Shougang Group shall, whether directly or indirectly, own not less than 50% interest in the Company and not less than 60% interest in South China Leasing throughout the term of the loan agreement. Breach of any of such undertakings will constitute an event of default upon which all amounts owing by South China Leasing to Wing Lung Bank under the loan agreement may become immediately payable. The Loan shall be repaid by South China Leasing by six instalments with the last instalment due on the date falling three years after the date of first drawn down of the Loan.

DISCLOSURE UNDER RULE 13.18 OF THE LISTING RULES (continued)

2. Pursuant to the facility letter entered into between SCG Finance Corporation Limited ("SCG Finance") and China Construction Bank (Asia) Corporation Limited ("CCB") on 13 January 2017 in relation to an uncommitted revolving loan of HK$70,000,000 (the "First CCB Facility"), Shougang Group shall own beneficially at least 50% of the entire issued share capital of the Company, whether directly or indirectly, throughout the term of the First CCB Facility. Breach of such condition will constitute an event of default upon which CCB may cancel the First CCB Facility and terminate the First CCB Facility and demand all outstanding amount under the First CCB Facility be immediately due and payable. The First CCB Facility would expire on the date falling 12 months from the date of the aforesaid facility letter and therefore the First CCB Facility was expired on 13 January 2018.

3. Pursuant to the facility letter entered into between SCG Finance and Chong Hing Bank Limited ("CHB") on 21 March 2018 in relation to a revolving term loan facility of HK$70,000,000 (the "Facility"). Shougang Group and Shougang Holding shall remain as the largest shareholder (directly or indirectly) of the Company during the term of the Facility. Breach of such condition will constitute an event of default upon which CHB may cancel the Facility or terminate the Facility and demand all outstanding amount under the Facility be immediately due and payable. The term of the Facility is subject to CHB's overriding right of repayment on demand.

4. Pursuant to the facility letter entered into between SCG Finance and CCB on 30 May 2018 in relation to an uncommitted revolving loan facility for a total principal amount not exceeding HK$70,000,000 (the "Second CCB Facility"), Shougang Group shall remain to directly or indirectly own beneficially at least 30% of the entire issued share capital of the Company during the term of the Second CCB Facility. Breach of such condition will constitute an event of default upon which CCB may cancel the Second CCB Facility or terminate the Second CCB Facility and demand all outstanding amount under the Second CCB Facility be immediately due and payable. The Second CCB Facility is subject to annual review by CCB.

REPORT OF THE DIRECTORS

CORPORATE GOVERNANCE

The Company's corporate governance practices are set out in the Corporate Governance Report on pages 20 to 49 of this annual report.

ENVIRONMENTAL AND SOCIAL MATTERS

The Company's compliance with the relevant provisions set out in the Environmental, Social and Governance Reporting Guide in Appendix 27 of the Listing Rules for the financial year ended 31 December 2018 are set out in the Environmental, Social and Governance Report on pages 50 to 73 of this annual report.

EVENTS AFTER THE REPORTING PERIOD

Details of significant events occurring after the reporting period are set out in note 47 to the financial statements.

AUDITOR

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

By Order of the Board
Xu Liang
Chairman

Hong Kong, 25 March 2019

INDEPENDENT AUDITOR'S REPORT

Deloitte. 德勤

TO THE SHAREHOLDERS OF SHOUGANG CONCORD GRAND (GROUP) LIMITED

(incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of Shougang Concord Grand (Group) Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 104 to 230, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

Key audit matter	How our audit addressed the key audit matter
Estimated impairment of finance lease receivables	
We identified the estimated impairment of finance lease receivables as a key audit matter due to significance of the carrying amount of finance lease receivables and significant judgment and estimates required by management in determining the amount of impairment of finance lease receivables. As at 31 December 2018, the carrying amount of the Group's finance lease receivables amounted to approximately HK$1,048,143,000, net of accumulated impairment losses of HK$81,150,000, and represented approximately 47% of total assets of the Group. During the year ended 31 December 2018, a reversal of impairment loss of finance lease receivables amounted to approximately HK$1,362,000 has been recognised. As explained in Notes 4 and 21 to the consolidated financial statements, in the current year, the Group adopted HKFRS 9 Financial Instruments ("HKFRS 9") and recognised an additional credit loss allowance of HK$12,765,000 as at 1 January 2018 in accordance with the transitional provisions of HKFRS 9.	Our procedures in relation to the estimated impairment of finance lease receivables included: • Understanding of the key controls over the granting of the finance leases and management's impairment assessment in relation to the recoverability of finance lease receivables; • Testing the accuracy of the ECL adjustment made by the Group as at 1 January 2018 on initial adoption of HKFRS 9; • Evaluating the appropriateness of the ECL provisioning methodology for finance lease receivables based on current economic conditions and forward-looking information; • Assessing the credit profiles of the related borrowers based on the external evidence and factors to determine the internal credit ratings;

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Estimated impairment of finance lease receivables (continued)	
As disclosed in Notes 4, 21 and 42b to the consolidated financial statements, the management of the Group estimates the amount of 12-months and lifetime expected credit loss ("ECL") of finance lease receivables and credit impaired finance lease receivables based on individual assessment of each finance lease borrower, after considering internal credit ratings based on available information at each reporting date for its finance lease receivables. Estimated loss rates are based on internal credit ratings with reference to estimated loss rates assigned by international credit-rating agencies. The impairment loss recognised or reversed is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows with the consideration of expected future credit losses of the respective financial instrument.	• Evaluating the reasonableness of management's determination of the estimated loss rates based on internal credit ratings; • Evaluating the appropriateness of management assessment of the ECL on credit impaired finance lease receivables with reference to the fair value of pledged assets, legal possession status and other uncertainties on realising the relevant pledged assets; • Checking the mathematical calculation and basis of impairment loss recognised or reversed under the ECL model; and • Evaluating the disclosures regarding the impairment assessment of finance lease receivables in Notes 21 and 42b to the consolidated financial statements.

KEY AUDIT MATTERS (continued)

Key audit matter	How our audit addressed the key audit matter
Estimated impairment of interest in an associate	
We identified the estimated impairment of interest in an associate as a key audit matter due to significant judgment and estimates are required by the management on determining the amount of impairment of interest in an associate, Global Digital Creations Holdings Limited ("GDC"). The impairment assessment requires management to exercise judgments in the determination of recoverable amount which is the higher of value in use and fair value less costs of disposal. The Group has carried out an impairment testing to determine whether the Group's interest in GDC is subject to impairment or reversal of impairment, as indicated by the decline in the financial performance and the quoted market price of the shares of GDC. The value in use calculation is determined based on the cash flow projection with key assumptions including budgeted revenue, gross margins, growth rates, discount rate and the impact on cash flows resulting from the resolution of the legal proceedings. The fair value less costs of disposal is determined with reference to the quoted market price of the shares of GDC at the date of transfer to non-current asset classified as held for sale and taking into account the consideration of the Disposal with Shougang Holding as defined in Note 29, while the management considers that the costs of disposal are insignificant. As disclosed in Notes 4 and 29 to the consolidated financial statements, the carrying amount of the Group's interest in GDC at the date of transfer to non-current asset classified as held for sale was approximately HK$110,212,000, net of accumulated impairment losses of HK$73,999,000. A reversal of impairment loss on interest in an associate amounted to approximately HK$75,640,000 has been recognised during the year ended 31 December 2018.	Our procedures in relation to the estimated impairment of interest in an associate included: • Understanding of the key control over the processes that the management performed in relation to the valuation assessment of its interest in an associate and the preparation of the cash flow projection; • Obtaining an understanding on management's procedures for determining the interest in an associate's recoverable amount, which is the higher of value in use and fair value less costs of disposal; • Checking the underlying calculation methodology and assessment used by the management in both value in use and fair value less costs of disposal calculations for the assessment of impairment; • Evaluating the reasonableness and appropriateness of the assumptions including budgeted revenue, gross margins, growth rates and discount rate applied in the value in use calculation against its historical performance and industry benchmark; • Inquiring the management regarding the civil judgment on the legal proceedings and evaluating the management assessment of its consequential impact on the value in use calculation based on the resolution of the legal proceedings; and • Checking the quoted market price of the shares of the associate in the determination of the fair value less cost of disposal.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor’s report thereon.

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

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

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

- 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.

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

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

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

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

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

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

The engagement partner on the audit resulting in the independent auditor’s report is Lau Chi Kin, Kinson.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
25 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	NOTES	2018 HK$'000	2017 HK$'000
Revenue	5		
Rental income		**3,133**	3,616
Finance lease and entrusted loan payment interest income		**85,076**	96,557
Service income		**8,414**	9,339
Total revenue		**96,623**	109,512
Cost of finance leases and services		**(42,427)**	(50,380)
Gross profit		**54,196**	59,132
Other income	7	**15,620**	4,389
Selling expenses		**(418)**	(993)
Administrative expenses		**(58,798)**	(40,530)
Changes in fair value of investment properties		**3,147**	10,781
Changes in fair value of financial assets at fair value through profit or loss		**(641)**	67
Other gains	8	**2,824**	285
Impairment loss, net of reversal	9	**1,242**	672
Finance costs	10	**(5,823)**	(2,445)
Share of results of associates		**(122,547)**	(11,947)
Impairment loss reversed (recognised) on interest in an associate	20	**75,640**	(9,626)
(Loss) profit before tax		**(35,558)**	9,785
Income tax expense	11	**(14,531)**	(12,206)
Loss for the year	12	**(50,089)**	(2,421)
Other comprehensive (expenses) income:			
Items that will not be reclassified to profit or loss:			
Exchange differences on translation to presentation currency		**(75,573)**	96,973
Share of translation difference of an associate		**(16,328)**	23,228
Share of property revaluation reserve of an associate		**18,673**	–
		(73,228)	120,201
Items that may be reclassified subsequently to profit or loss:			
Share of investment revaluation reserve of an associate		**–**	(1,655)
Fair value loss on debt instruments measured at fair value through other comprehensive income		**(126)**	–
Other comprehensive (expenses) income for the year		**(73,354)**	118,546
Total comprehensive (expenses) income for the year		**(123,443)**	116,125

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	NOTES	**2018** **HK$'000**	2017 HK$'000
(Loss) profit for the year attributable to:			
Owners of the Company		**(58,882)**	(11,332)
Non-controlling interests		**8,793**	8,911
		(50,089)	(2,421)
Total comprehensive (expenses) income for the year attributable to:			
Owners of the Company		**(114,570)**	83,646
Non-controlling interests		**(8,873)**	32,479
		(123,443)	116,125
			(Restated)
Loss per share	15		
Basic and diluted		**HK(2.00) cents**	HK(0.43) cents

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	NOTES	2018 HK$'000	2017 HK$'000
Non-current assets			
Property, plant and equipment	16	**17,639**	17,134
Investment properties	17	**66,705**	117,663
Goodwill	18	**50,848**	52,935
Interest in an associate	20	**1,591**	204,325
Finance lease receivables	21	**543,101**	1,027,923
Equity instrument at fair value through other comprehensive income	22	**11,558**	–
Debt instruments at fair value through other comprehensive income	23	**69,870**	–
Financial assets at fair value through profit or loss	26	**2,371**	–
Deferred tax assets	34	**18,006**	22,069
		781,689	1,442,049
Current assets			
Finance lease receivables	21	**505,042**	858,906
Entrusted loan payment receivable	24	**8,349**	–
Prepayments, deposits and other receivables	25	**6,772**	5,997
Financial assets at fair value through profit or loss	26	**–**	3,923
Structured deposit	27	**–**	12,048
Restricted bank deposits	28	**–**	19,811
Bank balances and cash	28	**806,150**	288,221
		1,326,313	1,188,906
Non-current asset classified as held for sale	29	**110,212**	–
		1,436,525	1,188,906
Current liabilities			
Other payables and accruals	30	**20,256**	26,567
Income received in advance	31	**–**	7,589
Contract liabilities	32	**3,221**	–
Rental and other deposits received		**310**	548
Tax liabilities		**25,336**	23,807
Secured bank borrowings – due within one year	33	**238,859**	535,048
Security deposits received – due within one year	21	**33,484**	54,261
		321,466	647,820
Net current assets		**1,115,059**	541,086
Total assets less current liabilities		**1,896,748**	1,983,135

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	NOTES	2018 HK$'000	2017 HK$'000
Capital and reserves			
Share capital	35	**40,083**	26,722
Retained earnings		**467,698**	524,192
Other reserves		**831,907**	731,003
Equity attributable to owners of the Company		**1,339,688**	1,281,917
Non-controlling interests		**286,402**	297,540
Total equity		**1,626,090**	1,579,457
Non-current liabilities			
Income received in advance	31	**–**	3,678
Contract liabilities	32	**771**	–
Secured bank borrowings – due after one year	33	**255,682**	361,446
Security deposits received – due after one year	21	**14,205**	38,554
		270,658	403,678
Total equity and liabilities		**1,896,748**	1,983,135

The consolidated financial statements on pages 104 to 230 were approved and authorised for issue by the board of directors on 25 March 2019 and are signed on its behalf by:

Xu Liang	**Liu Dongsheng**
DIRECTOR	*DIRECTOR*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Attributable to owners of the Company										
	Share capital HK$'000	Share premium HK$'000	Property revaluation reserve HK$'000	Investment revaluation reserve HK$'000	Contributed surplus reserve HK$'000 (Note (a))	Translation reserve HK$'000	Share options reserve HK$'000	Retained earnings HK$'000	Sub-total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2017	26,722	604,068	7,392	1,655	115,576	(102,920)	27,497	518,281	1,198,271	265,061	1,463,332
(Loss) profit for the year	–	–	–	–	–	–	–	(11,332)	(11,332)	8,911	(2,421)
Exchange differences on translation to presentation currency	–	–	–	–	–	73,405	–	–	73,405	23,568	96,973
Share of translation difference of an associate	–	–	–	–	–	23,228	–	–	23,228	–	23,228
Share of investment revaluation reserve of an associate	–	–	–	(1,655)	–	–	–	–	(1,655)	–	(1,655)
Other comprehensive (expenses) income for the year	–	–	–	(1,655)	–	96,633	–	–	94,978	23,568	118,546
Total comprehensive (expenses) income for the year	–	–	–	(1,655)	–	96,633	–	(11,332)	83,646	32,479	116,125
Lapse of share options	–	–	–	–	–	–	(17,243)	17,243	–	–	–
At 31 December 2017	26,722	604,068	7,392	–	115,576	(6,287)	10,254	524,192	1,281,917	297,540	1,579,457
Adjustments (see Note 2)	–	–	–	–	–	–	–	(7,180)	(7,180)	(2,394)	(9,574)
At 1 January 2018	**26,722**	**604,068**	**7,392**	**–**	**115,576**	**(6,287)**	**10,254**	**517,012**	**1,274,737**	**295,146**	**1,569,883**
(Loss) profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(58,882)**	**(58,882)**	**8,793**	**(50,089)**
Exchange differences on translation to presentation currency	**–**	**–**	**–**	**–**	**–**	**(57,907)**	**–**	**–**	**(57,907)**	**(17,666)**	**(75,573)**
Share of translation difference of an associate	**–**	**–**	**–**	**–**	**–**	**(16,328)**	**–**	**–**	**(16,328)**	**–**	**(16,328)**
Share of property revaluation reserve of an associate	**–**	**–**	**18,673**	**–**	**–**	**–**	**–**	**–**	**18,673**	**–**	**18,673**
Fair value loss on debt instruments measured at fair value through other comprehensive income	**–**	**–**	**–**	**(126)**	**–**	**–**	**–**	**–**	**(126)**	**–**	**(126)**
Other comprehensive income (expenses) for the year	**–**	**–**	**18,673**	**(126)**	**–**	**(74,235)**	**–**	**–**	**(55,688)**	**(17,666)**	**(73,354)**
Total comprehensive income (expenses) for the year	**–**	**–**	**18,673**	**(126)**	**–**	**(74,235)**	**–**	**(58,882)**	**(114,570)**	**(8,873)**	**(123,443)**
Issue of shares upon rights issue (Note 35)	**13,361**	**166,160**	**–**	**–**	**–**	**–**	**–**	**–**	**179,521**	**–**	**179,521**
Acquisition of a subsidiary (Note 40)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**129**	**129**
Lapse of share options	**–**	**–**	**–**	**–**	**–**	**–**	**(9,568)**	**9,568**	**–**	**–**	**–**
At 31 December 2018	**40,083**	**770,228**	**26,065**	**(126)**	**115,576**	**(80,522)**	**686**	**467,698**	**1,339,688**	**286,402**	**1,626,090**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

Notes:

(a) The contributed surplus reserve represents the difference between the nominal value of the shares of the subsidiaries acquired pursuant to the group reorganisation in 1991 over the nominal value of the Company's shares issued in exchange, and the transfer and utilisation as mentioned in Note (b) below.

(b) A special resolution was passed by shareholders of the Company at the special general meeting of the Company held on 6 June 2008 and completed thereafter that an amount of approximately HK$425,259,000 standing to the credit of the share premium account of the Company as at 31 December 2007 be reduced, with the credit arising there being transferred to the contributed surplus reserve of the Company. Upon the said transfer becoming effective, an amount of approximately HK$311,818,000 standing to the credit of the contributed surplus reserve of the Company has been applied to eliminate the accumulated losses of the Company as at 31 December 2007. The Company has complied with the requirements of section 46(2) of The Companies Act 1981 of Bermuda (as amended). Details of which were set out in the circular of the Company dated 9 May 2008.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	2018 HK$'000	2017 HK$'000
OPERATING ACTIVITIES		
(Loss) profit before tax	**(35,558)**	9,785
Adjustments for:		
Changes in fair value of financial assets at fair value through profit or loss	**641**	(67)
Depreciation of property, plant and equipment	**1,198**	620
Dividend income from financial assets at fair value through profit or loss	**–**	(41)
Gain on disposal of available-for-sale investment	**–**	(274)
Gain on disposal of property, plant and equipment	**(74)**	(11)
Impairment loss (reversed) recognised on interest in an associate	**(75,640)**	9,626
Impairment loss, net of reversal:		
– finance lease receivables	**(1,362)**	(672)
– debt instruments at fair value through other comprehensive income	**120**	–
Increase in fair value of investment properties	**(3,147)**	(10,781)
Interest expenses (included in cost of sales and finance costs)	**48,250**	52,825
Interest income	**(12,461)**	(3,583)
Share of results of associates	**122,547**	11,947
Operating cash flows before movements in working capital	**44,514**	69,374
Decrease in finance lease receivables	**720,077**	123,684
Increase in entrusted loan payment receivable	**(8,364)**	–
Decrease in trade receivables	**–**	1
Increase in prepayments, deposits and other receivables	**(549)**	(1,720)
Decrease in other payables and accruals	**(6,192)**	(6,326)
Decrease in income received in advance	**–**	(3,733)
Decrease in contract liabilities	**(6,650)**	–
Decrease in rental and other deposits received	**(224)**	(235)
(Decrease) increase in security deposits received	**(39,852)**	13,968
Cash from operations	**702,760**	195,013
Dividend received from financial assets at fair value through profit or loss	**–**	41
Interest paid	**(47,675)**	(50,048)
Income tax paid	**(5,655)**	(4,364)
NET CASH FROM OPERATING ACTIVITIES	**649,430**	140,642

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	NOTES	2018 HK$'000	2017 HK$'000
INVESTING ACTIVITIES			
Proceeds from redemption of structured deposits		**1,889,239**	477,955
Proceeds on disposal of an investment property		**52,351**	18,564
Dividends received from an associate		**49,533**	–
Withdrawal of restricted bank deposits		**18,685**	10,168
Interest received		**12,461**	3,583
Proceeds from disposal of financial assets at fair value through profit or loss		**864**	1,120
Proceeds from disposal of property, plant and equipment		**79**	11
Purchase of structured deposits		**(1,877,876)**	(477,807)
Purchase of debt instruments at fair value through other comprehensive income		**(70,116)**	–
Purchase of equity instrument at fair value through other comprehensive income		**(11,765)**	–
Purchase of property, plant and equipment		**(2,648)**	(462)
Placement of restricted bank deposits		**–**	(1,129)
Proceeds on disposal of available-for-sale investment		**–**	5,335
Repayment from an associate		**–**	388
NET CASH FROM INVESTING ACTIVITIES		**60,807**	37,726
FINANCING ACTIVITIES			
Repayment of bank loans		**(490,590)**	(549,401)
Transaction costs on rights issue	35	**(4,860)**	–
Proceeds from issue of shares upon rights issue	35	**184,381**	–
New bank loans raised		**140,000**	437,941
NET CASH USED IN FINANCING ACTIVITIES		**(171,069)**	(111,460)
NET INCREASE IN CASH AND CASH EQUIVALENTS		**539,168**	66,908
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**288,221**	202,597
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**(21,239)**	18,716
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, REPRESENTED BY BANK BALANCES AND CASH		**806,150**	288,221

1. GENERAL

Shougang Concord Grand (Group) Limited (the "Company") is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). Its Controlling Shareholder, which is defined under the Rules Governing the Listing of Securities on the Stock Exchange as a person who is entitled to exercise or control the exercise of 30% or more of the voting power at general meetings of an issuer, is Shougang Holding (Hong Kong) Limited ("Shougang Holding"), a company incorporated in Hong Kong with limited liability, and the ultimate holding company of Shougang Holding is Shougang Group Co., Ltd., a company established in the People's Republic of China (the "PRC"). The Company is controlled by Shougang Holding. The addresses of the registered office and principal place of business of the Company are disclosed in the "Corporate Information" section to the annual report.

The Company is an investment holding company. The principal activities of its principal subsidiaries are provision of finance leasing and other financial services, property leasing and provision of building management services and assets management.

The functional currency of the Company is Renminbi as the primary economic environment in which the Company's subsidiaries operate is the Mainland China (for the purpose of this report, "Mainland China" refers to the mainland of the PRC and does not include Hong Kong, Macau and Taiwan). The consolidated financial statements are presented in Hong Kong dollars ("HK$") for the convenience of the readers.

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

New and amendments to HKFRSs that are mandatorily effective for the current year

The Company and its subsidiaries (collectively referred to as "the Group") has applied the following new and amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers and the related Amendments
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014 – 2016 Cycle
Amendments to HKAS 40	Transfers of Investment Property

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

2.1 HKFRS 15 Revenue from Contracts with Customers ("HKFRS 15")

The Group has applied HKFRS 15 for the first time in the current year. HKFRS 15 superseded HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related interpretations.

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained earnings (or other components of equity, as appropriate) and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 *Revenue* and HKAS 11 *Construction Contracts* and the related interpretations.

The Group recognises revenue from handling service on finance lease receivables which arise from contracts with customers.

Information about the Group's performance obligations and the accounting policies resulting from application of HKFRS 15 are disclosed in Notes 5 and 3, respectively.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

New and amendments to HKFRSs that are mandatorily effective for the current year (continued)

2.1 HKFRS 15 Revenue from Contracts with Customers ("HKFRS 15") (continued)

Summary of effects arising from initial application of HKFRS 15

At the date of initial application, 1 January 2018, there is no difference recognised in the opening retained earnings.

The following adjustments were made to the amounts recognised in the consolidated statement of financial position at 1 January 2018. Line items that were not affected by the changes have not been included.

	Carrying amounts previously reported at 31 December 2017	**Reclassification**	**Carrying amounts under HKFRS 15 at 1 January 2018**
	HK$'000	HK$'000 (Note)	HK$'000
Current liabilities			
Income received in advance	7,589	(7,589)	–
Contract liabilities	–	7,589	7,589
Non-current liabilities			
Income received in advance	3,678	(3,678)	–
Contract liabilities	–	3,678	3,678

Note: As at 1 January 2018, income received in advance of HK$11,267,000 in respect of finance lease arrangement service contracts signed with customers previously included in income received in advance are reclassified to contract liabilities.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

New and amendments to HKFRSs that are mandatorily effective for the current year (continued)

2.1 *HKFRS 15 Revenue from Contracts with Customers ("HKFRS 15") (continued)*

Summary of effects arising from initial application of HKFRS 15 (continued)

The following tables summarise the impacts of applying HKFRS 15 on the Group's consolidated statement of financial position as at 31 December 2018 and the consolidated statement of cash flows for the current year for each of the line items affected. Line items that were not affected by the changes have not been included.

Impact on the consolidated statement of financial position

	As reported	Reclassification	Amounts without application of HKFRS 15
	HK$'000	HK$'000	HK$'000
Current liabilities			
Income received in advance	–	3,221	3,221
Contract liabilities	3,221	(3,221)	–
Non-current liabilities			
Income received in advance	–	771	771
Contract liabilities	771	(771)	–

Impact on the consolidated statement of cash flows

	As reported	Adjustments	Amounts without application of HKFRS 15
	HK$'000	HK$'000	HK$'000
Operating activities			
Decrease in income received in advance	–	(6,650)	(6,650)
Decrease in contract liabilities	(6,650)	6,650	–

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

New and amendments to HKFRSs that are mandatorily effective for the current year (continued)

2.2 HKFRS 9 Financial Instruments ("HKFRS 9")

In the current year, the Group has applied HKFRS 9 and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses ("ECL") for financial assets, finance lease receivables and entrusted loan payment receivable and 3) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained earnings and non-controlling interests, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 *Financial Instruments: Recognition and Measurement* ("HKAS 39").

Accounting policies resulting from application of HKFRS 9 are disclosed in Note 3.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (continued)

New and amendments to HKFRSs that are mandatorily effective for the current year (continued)

2.2 *HKFRS 9 Financial Instruments (“HKFRS 9”) (continued)*

Summary of effects arising from initial application of HKFRS 9

The table below illustrates the classification and measurement (including impairment) of financial assets subject to ECL under HKFRS 9 and HKAS 39 at the date of initial application, 1 January 2018.

	Closing balance at 31 December 2017 under HKAS 39	Reclassification under HKFRS 9	Remeasurement of loss allowance under ECL under HKFRS 9	Opening balance at 1 January 2018 under HKFRS 9
	HK$'000	HK$'000	HK$'000	HK$'000 (restated)
Non-current assets				
Finance lease receivables	1,027,923	–	(10,787)	1,017,136
Deferred tax assets	22,069	–	3,191	25,260
Financial assets at fair value through profit or loss	–	3,923	–	3,923
Current assets				
Finance lease receivables	858,906	–	(1,978)	856,928
Financial assets at fair value through profit or loss	3,923	(3,923)	–	–
Capital and reserves				
Retained earnings	524,192	–	(7,180)	517,012
Non-controlling interests	297,540	–	(2,394)	295,146

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

New and amendments to HKFRSs that are mandatorily effective for the current year (continued)

2.2 *HKFRS 9 Financial Instruments ("HKFRS 9") (continued)*

Financial assets at fair value through profit or loss ("FVTPL")

The Group has reassessed its investments in equity securities classified as held-for-trading under HKAS 39 as if the Group had purchased these investments at the date of initial application. Based on the facts and circumstances as at the date of initial application, the Group's investments of HK$3,923,000 previously classified as held-for-trading were no longer held-for-trading and continued to be measured at FVTPL.

Impairment under ECL model

Except for those which had been determined as credit impaired under HKAS 39, ECL for financial assets at amortised cost, including finance lease receivables, entrusted loan payment receivable, other receivables and bank balances, are assessed individually on 12-month ECL ("12m ECL") basis as there had been no significant increase in credit risk since initial recognition, except for finance lease receivables with internal credit rating of Caa3 to Caa1 which are assessed and measured on lifetime ECL basis as those credit risk had increased significantly since initial recognition as disclosed in Note 42(b).

All of the Group's debt instruments at fair value through other comprehensive income ("FVTOCI") are listed bonds that are graded in the top credit rating among rating agencies. Therefore, these investments are considered to be low credit risk investments and the loss allowance is assessed on 12m ECL basis.

As at 1 January 2018, additional credit loss allowance of HK$12,765,000 and increase in deferred tax assets of HK$3,191,000 have been recognised against retained earnings and non-controlling interests. The additional loss allowance is charged against finance lease receivables.

As at 1 January 2018, the directors of the Company (the "Directors") reviewed and assessed the impairment of bank balances and other receivables under ECL model, and no additional loss allowance is recognised against retained earnings.

All loss allowances for finance lease receivables as at 31 December 2017 reconciled to the opening loss allowance as at 1 January 2018 is as follows:

	At 31 December 2017 under HKAS 39	Remeasurement through opening retained earnings	At 1 January 2018 under HKFRS 9
	HK$'000	HK$'000	HK$'000 (restated)
Finance lease receivables	97,315	12,765	110,080

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

New and amendments to HKFRSs that are mandatorily effective for the current year (continued)

2.3 Impacts on opening consolidated statement of financial position arising from the application of all new standards

As a result of the changes in the Group's accounting policies above, the opening consolidated statement of financial position had to be restated. The following table shows the adjustments recognised for each of the line items affected. Line items that were not affected by the changes have not been included.

	31 December 2017 HK$'000 (audited)	HKFRS 15 HK$'000	HKFRS 9 HK$'000	**1 January 2018 HK$'000 (restated)**
Non-current assets				
Finance lease receivables	1,027,923	–	(10,787)	**1,017,136**
Deferred tax assets	22,069	–	3,191	**25,260**
Financial assets at fair value through profit or loss	–	–	3,923	**3,923**
Current assets				
Finance lease receivables	858,906	–	(1,978)	**856,928**
Financial assets at fair value through profit or loss	3,923	–	(3,923)	**–**
Current liabilities				
Income received in advance	7,589	(7,589)	–	**–**
Contract liabilities	–	7,589	–	**7,589**
Capital and reserves				
Retained earnings	524,192	–	(7,180)	**517,012**
Non-controlling interests	297,540	–	(2,394)	**295,146**
Non-current liabilities				
Income received in advance	3,678	(3,678)	–	**–**
Contract liabilities	–	3,678	–	**3,678**

For the purposes of reporting cash flows from operating activities under indirect method for the year ended 31 December 2018, movements in working capital have been computed based on opening consolidated statement of financial position as at 1 January 2018 as disclosed above.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[3]
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to HKFRS 3	Definition of a Business[4]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Amendments to HKAS 1 and HKAS 8	Definition of Material[5]
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 – 2017 Cycle[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after a date to be determined
3 Effective for annual periods beginning on or after 1 January 2021
4 Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020
5 Effective for annual periods beginning on or after 1 January 2020

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

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

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

HKFRS 16 Leases ("HKFRS 16")

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

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. In addition, HKFRS 16 requires sales and leaseback transactions to be determined based on the requirements of HKFRS 15 as to whether the transfer of the relevant asset should be accounted as a sale. HKFRS 16 also includes requirements relating to subleases and lease modifications.

Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all leases by lessees, except for short-term leases and leases of low value assets.

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

Under HKAS 17, the Group has already recognised an asset and a related finance lease liability for finance lease arrangement and prepaid lease payments for leasehold lands where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

Other than certain requirements which are also applicable to lessor, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

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

HKFRS 16 Leases ("HKFRS 16") (continued)

As at 31 December 2018, the Group as lessee has non-cancellable operating lease commitments of HK$391,000 as disclosed in Note 37. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid of HK$196,000 and refundable rental deposits received of HK$310,000 as rights and obligations under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right-of-use assets. Adjustments to refundable rental deposits received would be considered as advance lease payments.

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group intends to elect the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC) – Int 4 *Determining whether an Arrangement contains a Lease* ("HK(IFRIC) – Int 4") and not apply this standard to contracts that were not previously identified as containing a lease applying HKAS 17 and HK(IFRIC) – Int 4. Therefore, the Group will not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Group intends to elect the modified retrospective approach for the application of HKFRS 16 as lessee and will recognise the cumulative effect of initial application to opening retained earnings, if any, without restating comparative information.

Amendments to HKFRS 3 *Definition of a Business*

The amendments clarify the definition of a business and provide additional guidance with the objective of assisting entities to determine whether a transaction should be accounted for as a business combination or an asset acquisition. Furthermore, an optional concentration test is introduced to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The amendments will be mandatorily effective to the Group prospectively for acquisition transactions completed on or after 1 January 2020.

Amendments to HKAS 1 and HKAS 8 *Definition of Material*

The amendments provide refinements to the definition of material by including additional guidance and explanations in making materiality judgments. The amendments also align the definition across all HKFRSs and will be mandatorily effective for the Group's annual period beginning on 1 January 2020. The application of the amendments is not expected to have significant impact on the financial position and performance of the Group but may affect the presentation and disclosures in the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

The principal accounting policies are set out below.

Basis of consolidation

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

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

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation (continued)

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

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

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

Changes in the Group's ownership interests in existing subsidiaries

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

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

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests (if any) are derecognised. A gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKFRS 9/HKAS 39 or, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations

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

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

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 *Income Taxes* and HKAS 19 *Employee Benefits* respectively;

- liabilities or equity instrument related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 at the acquisition date (see the accounting policy below); and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* ("HKFRS 5") are measured in accordance with that standard.

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

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the relevant subsidiary's net assets in the event of liquidation are initially measured at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets or at fair value.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Goodwill

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

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

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

On disposal of the relevant CGU or any of the CGU within the group of CGUs, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal. When the Group disposes of an operation within the CGU (or a CGU within a group of CGUs), the amount of goodwill disposed of is measured on the basis of the relative values of the operation (or the CGU) disposed of and the portion of the CGU (or the group of CGUs) retained.

Investments in associates

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associates (continued)

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is or the portion so classified is accounted for in accordance with HKFRS 5. Any retained portion of an investment in an associate that has not been classified as held for sale continues to be accounted for using the equity method. The financial statements of associates used for equity accounting purposes are prepared using uniform accounting policies as those of the Group for like transactions and events in similar circumstances. Under the equity method, investment in associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. Changes in net assets of the associate other than profit or loss and other comprehensive income are not accounted for unless such changes resulted in changes in ownership interest held by the Group. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

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

The Group assesses whether there is an objective evidence that the interest in an associate may be impaired. When any objective evidence exists, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associates (continued)

When the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in the investee with a resulting gain or loss being recognised in profit or loss. When the Group retains an interest in the former associate and the retained interest is a financial asset within the scope of HKFRS 9/HKAS 39, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition. The difference between the carrying amount of the associate and the fair value of any retained interest and any proceeds from disposing the relevant interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) upon disposal/partial disposal of the relevant associate.

When a group entity transacts with an associate of the Group, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interest in the associate that are not related to the Group.

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset (or disposal group) and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving disposal of an investment, or a portion of an investment, in an associate, the investment or the portion of the investment that will be disposed of is classified as held for sale when the criteria described above are met, and the Group discontinues the use of the equity method in relation to the portion that is classified as held for sale from the time when the investment (or a portion of the investment) is classified as held for sale.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs of disposal.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in Note 2)

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a good or service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

A contract asset and a contract liability relating to a contract are accounted for and presented on a net basis.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in Note 2) (continued)

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation

Input method

The progress towards complete satisfaction of a performance obligation is measured based on input method, which is to recognise revenue on the basis of the Group's efforts or inputs to the satisfaction of a performance obligation relative to the total expected inputs to the satisfaction of that performance obligation, that best depict the Group's performance in transferring control of goods or services.

Revenue recognition (prior to 1 January 2018)

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold and services provided in the ordinary course of business, net of returns, discounts and sales related taxes.

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

Finance leasing and other financial services income are allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

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

Handling service fee income from finance leasing business is allocated to accounting periods on a straight line basis.

Dividend income from investments is recognised when the Group's rights to receive payment have been established.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment

Property, plant and equipment including leasehold land and buildings held for use in supply of goods or services or for administrative purposes are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

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

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

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

Investment properties

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

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values. All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are classified and accounted for as investment properties and measured using the fair value model. Gains or losses arising from changes in fair value of investment properties are included in the profit or loss for the period in which they arise.

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases

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

The Group as lessor

Finance lease interest and rental income which are derived from the Group's ordinary course of business are presented as revenue.

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset. Other than investment properties measured under fair value model, such costs are recognised as an expense on a straight-line basis over the lease term.

The Group as lessee

Operating lease payments, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight-line basis over the lease term.

Leasehold land and building

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

To the extent the allocation of the relevant payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis except for those that are classified and accounted for as investment properties under the fair value model. When the payments cannot be allocated reliably between the leasehold land and building elements, the entire property is generally classified as if the leasehold land is under finance lease.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies

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

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

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the group entities with functional currency in Renminbi are translated into the presentation currency of the Group (i.e. HK$) using exchange rates prevailing at the end of the reporting period. Income and expenses items are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributed to non-controlling interests as appropriate).

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Borrowing costs

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

Loan raising costs

Loan raising costs incurred in negotiating and arranging bank borrowings are set-off against the carrying amount of the bank borrowings and recognised as an expense on an effective interest method over the loan period.

Retirement benefit costs

Payments to the state-managed retirement benefit schemes and the Mandatory Provident Fund Scheme are recognised as an expense when employees have rendered service entitling them to the contributions.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expenses unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit/loss before tax because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Taxation (continued)

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

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

For the purposes of measuring deferred tax for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15 since 1 January 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss ("FVTPL")) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

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

Interest income which is derived from the Group's ordinary course of business is presented as revenue.

Financial assets

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in Note 2)

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

***Financial assets** (continued)*

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in Note 2) (continued)

Financial assets that meet the following conditions are subsequently measured at FVTOCI:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 *Business Combinations* applies.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or

- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

- it is a derivative that is not designated and effective as a hedging instrument.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

***Financial assets** (continued)*

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in Note 2) (continued)

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost and debt instruments/receivables subsequently measured at FVTOCI. Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired (see below). For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

(ii) Debt instruments classified as at FVTOCI

Subsequent changes in the carrying amounts for debt instruments classified as at FVTOCI as a result of interest income calculated using the effective interest method are recognised in profit or loss. All other changes in the carrying amount of these debt instruments are recognised in other comprehensive income and accumulated under the heading of investment revaluation reserve. Impairment allowances are recognised in profit or loss with corresponding adjustment to other comprehensive income without reducing the carrying amounts of these debt instruments. The amounts that are recognised in profit or loss are the same as the amounts that would have been recognised in profit or loss if these debt instruments had been measured at amortised cost. When these debt instruments are derecognised, the cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

***Financial assets** (continued)*

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in Note 2) (continued)

(iii) Equity instrument designated as at FVTOCI

Investment in equity instrument at FVTOCI is subsequently measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the investment revaluation reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investment, and will be transferred to retained earnings.

Dividends from this investment in equity instrument are recognised in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment. Dividends are included in the "other income" line item in profit or loss.

(iv) Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the "other gains" line item.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

***Financial assets** (continued)*

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with Note 2)

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including finance lease receivables, entrusted loan payment receivable, other receivables and bank balances). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12m ECL represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment is done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises 12m ECL for finance lease receivables, entrusted loan payment receivable and all other instruments unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The 12m ECL on these assets are assessed individually as they are normally with significant balances. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

***Financial assets** (continued)*

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with Note 2) (continued)

(i) Significant increase in credit risk (continued)

- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

- an actual or expected significant deterioration in the operating results of the debtor;

- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

Despite the aforegoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if i) it has a low risk of default, ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of "investment grade" as per globally understood definitions.

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

***Financial assets** (continued)*

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with Note 2) (continued)

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collaterals held by the Group).

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit impaired includes observable data about the following events:

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider; or

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

***Financial assets** (continued)*

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with Note 2) (continued)

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of finance lease receivables, when the amounts are over one year past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

Generally, the ECL is the difference between all contractual cash flows that are due to the Group in accordance with the contract and the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

***Financial assets** (continued)*

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with Note 2) (continued)

(v) Measurement and recognition of ECL (continued)

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

Except for investments in debt instruments that are measured at FVTOCI, the Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of finance lease receivables and entrusted loan payment receivable. Where the corresponding adjustment is recognised through a loss allowance account. For investments in debt instruments that are measured at FVTOCI, the loss allowance is recognised in other comprehensive income and accumulated in the FVTOCI reserve without reducing the carrying amount of these debt instruments.

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018)

The Group's financial assets are classified into either financial assets at FVTPL or loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is (i) held-for-trading or (ii) it is designated as FVTPL.

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

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

***Financial assets** (continued)*

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018) (continued)

Financial assets at FVTPL (continued)

A financial asset other than a financial asset held-for-trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets and is included in other gains line item. Fair value is determined in the manner described in Note 42(c).

Loans and receivables and finance lease receivables

Loans and receivables and finance lease receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including other receivables, restricted bank deposits and bank balances and cash) and finance lease receivables are measured at amortised cost using the effective interest method, less any identified impairment losses. Interest income is recognised by applying the effective interest rate.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

***Financial assets** (continued)*

Impairment of financial assets and finance lease receivables (before application of HKFRS 9 on 1 January 2018)

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

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For financial assets and finance lease receivables carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows with reference to the future settlement schedule (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

***Financial assets** (continued)*

Derecognition of financial assets

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

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

Financial liabilities and equity

Classification as debt or equity

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

Equity instruments

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

***Financial liabilities and equity** (continued)*

Financial liabilities at amortised cost

Financial liabilities including other payables, secured bank borrowings and security deposits received are subsequently measured at amortised cost, using the effective interest method.

Derecognition of financial liabilities

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

Equity-settled share-based payment transactions

Share options granted to the directors and employees of the Group

The fair value of services received determined by reference to the fair value of share options granted at the grant date is recognised as an expense in full at the grant date when the share options granted vest immediately, with a corresponding increase in equity (share options reserve).

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

Share options granted to other participants

Share options issued in exchange for goods or services are measured at the fair value of the goods or services received, unless that fair value cannot be reliably measured, in which case the goods or services received are measured by reference to the fair value of the share options granted, measured at the date the entity obtains the goods or the counterparty renders the service. The fair values of the services received are recognised as expenses, with a corresponding increase in equity (share options reserve), when the Group obtains the goods or when the counterparties render services, unless the goods or services qualify for recognition as assets.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment losses on tangible assets (see the accounting policy in respect of goodwill above)

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss, if any. The recoverable amount of tangible assets is estimated individually, when it is not possible to estimate the recoverable amount individually, the Group estimates the recoverable amount of the CGU to which the asset is belonged to. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGUs, or otherwise they are allocated to the smallest group of CGUs for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher 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 the time value of money and the risks specific to the asset (or a CGU) for which the estimates of future cash flows have not been adjusted.

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

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

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Critical judgments in applying accounting policies

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

Deferred taxation on investment properties

For the purposes of measuring deferred tax liabilities or deferred tax assets arising from investment properties that are measured using the fair value model, the Directors have reviewed the Group's investment property portfolio and concluded that the Group's investment properties are not held under a business model whose objective is to consume substantially all of the economic benefits embodied in the investment properties over time. Therefore, in measuring the Group's deferred taxation on investment properties, the Directors have determined that the presumption that the carrying amounts of investment properties measured using the fair value model are recovered entirely through sale is not rebutted.

As a result, the Group has not recognised any deferred tax on changes in fair value of investment properties located in Hong Kong as the Group is not subject to any income taxes on disposal of its investment properties. In respect of those investment properties located in Mainland China, the Group recognised additional deferred taxes relating to Land Appreciation Tax ("LAT") and Enterprise Income Tax ("EIT") on changes in fair value of such investment properties.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Key sources of estimation uncertainty

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

Fair value measurement of financial instruments

The Group's equity instrument at FVTOCI and structured deposit amounting to HK$11,558,000 and HK$Nil, respectively as at 31 December 2018 (2017: HK$Nil and HK$12,048,000, respectively) are measured at fair values with fair values being determined based on unobserved inputs using valuation techniques. Judgment and estimation are required in establishing the relevant valuation techniques and the relevant inputs thereof. Changes in assumptions relating to these factors could affect the reported fair values of these instruments. Note 42(c) provide detailed information about the valuation techniques, inputs and key assumptions used in the determination of the fair value of these investments.

Estimated impairment of finance lease receivables

Before the adoption of HKFRS 9, the Group makes allowances for impairment of finance lease receivables based on an assessment of the recoverability of finance lease receivables.

When there is objective evidence of impairment loss such as overdue and default in repayment, the Group takes into consideration the estimation of future cash flows expected to arise from the settlement of the finance lease receivables and fair value of the pledged assets less cost of disposal. The amount of the impairment loss is measured as the difference between the asset's carrying amount and higher of the present value of estimated future cash flows with reference to the future settlement schedule (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition) and the fair value of the pledged assets less cost of disposal. The fair value of the pledged assets is determined with reference to the relevant market information or valuation result performed by an independent valuer. The Group also takes into consideration the financial positions and the guarantee of the relevant customers, the expected timing, legal possession status and other uncertainties on realising the pledged assets. Where the present value of estimated future cash flows or the fair value of the pledged assets less cost of disposal are less than expected, a material impairment loss may arise.

As at 31 December 2017, the carrying amount of finance lease receivables is HK$1,886,829,000 (net of allowance for impairment losses of HK$97,315,000).

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Key sources of estimation uncertainty (continued)

Estimated impairment of finance lease receivables (continued)

Since the adoption of HKFRS 9 on 1 January 2018, management estimates the amount of ECL on finance lease receivables based on the credit risk of the financial instruments. The impairment loss recognised or reversed is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows with the consideration of expected future credit loss of the respective financial instrument. The assessment of the credit risk of the respective financial instrument involves high degree of estimation and uncertainty. The Group also takes into consideration the financial positions and the guarantee of the relevant customers, the expected timing, legal possession status and other uncertainties on realising the pledged assets in the ECL model. When the actual future cash flows are less than expected or more than expected, a material impairment loss or a material reversal of impairment loss may arise, accordingly.

As at 31 December 2018, the carrying amount of finance lease receivables amounted to HK$1,048,143,000 (net of allowance for impairment losses of HK$81,150,000).

Estimated impairment of interest in an associate

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of the recoverable amount of an associate which is the higher of value in use and fair value less costs of disposal. The Group has carried out impairment testing to determine whether the Group's interest in an associate, Global Digital Creations Holdings Limited ("GDC"), is subject to impairment or reversal of impairment, as indicated by the decline in the financial performance of GDC and fluctuation of the quoted market prices of the shares of GDC. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the associate with key assumptions including budgeted revenue, gross margins, growth rates, discount rate and the impact on cash flows resulting from the resolution of the legal proceedings. Where the actual future cash flows are less than expected or more than expected, a material impairment loss or a material reversal of impairment loss may arise, accordingly. The fair value less costs of disposal is determined with reference to the quoted market price of the shares of the associate at the date of transfer to non-current asset classified as held for sale and taking into account the consideration of the Disposal with Shougang Holding as defined in Note 29, while management of the Group considers that the costs of disposal are insignificant.

A reversal of impairment loss of HK$75,640,000 (2017: impairment loss of HK$9,626,000) is recognised for interest in an associate during the year ended 31 December 2018.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

Key sources of estimation uncertainty (continued)

Estimated impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the recoverable amount of the CGU to which goodwill has been allocated, which is the higher of value in use or fair value less costs of disposal. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the CGU and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, or change in facts and circumstances which results a downward revision of future cash, a material impairment loss/further impairment loss may arise. As at 31 December 2018, the carrying amount of goodwill is HK$50,848,000, net of accumulated impairment losses of HK$190,385,000 (2017: HK$52,935,000, net of accumulated impairment losses of HK$201,854,000). Details of the recoverable amount calculation are disclosed in Note 19.

5. REVENUE

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

	2018 **HK$'000**	2017 HK$'000
Finance lease interest income	**84,874**	96,557
Entrusted loan payment interest income	**202**	–
Property leasing income	**3,133**	3,616
	88,209	100,173
Revenue from contracts with customers		
Handling service fee income	**8,414**	9,339
Total revenue	**96,623**	109,512

The Group's service fee income recognised during the period of HK$8,414,000 (31 December 2017: HK$9,339,000) is included in finance leasing and other financial services segment, recognised over time on straight line basis and all derived from the PRC.

5. REVENUE (continued)

Performance obligations for contracts with customers

Revenue from handling service on finance lease receivables

Revenue from handling service on finance lease receivables is recognised when the relevant services are provided by the Group over time using input method as the borrowers simultaneously receive and consume the benefits provided by the Group's performance. The handling service fee is received immediately at the point when the finance lease contract is entered into and would give rise to the contract liability at the start of a contract until the revenue is fully recognised over the period of the contract.

Transaction price allocated to the remaining performance obligation for contracts with customers

The transaction price allocated to the remaining performance obligations (unsatisfied or partially unsatisfied) as at 31 December 2018 and the expected timing of recognising revenue are as follows:

	Handling service fee income HK$'000
Within one year	3,221
More than one year, but not exceeding two years	450
More than two years	321

6. SEGMENT INFORMATION

Information reported to the chief operating decision maker ("CODM"), being the Managing Director of the Company, for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided, which is also the basis of organisation of the Group, is set out below.

The Group is currently organised into three operating divisions – finance leasing and other financial services, property leasing and building management services and assets management where assets management segment is engaged in investment holding and provision of referral and corporate financial advisory services.

6. SEGMENT INFORMATION (continued)

Segment revenue and results

The following is an analysis of the Group's revenue and results by operating and reportable segment.

For the year ended 31 December 2018

	Finance leasing and other financial services HK$'000	Property leasing and building management services HK$'000	Assets management HK$'000	Total HK$'000
Segment revenue	93,490	3,133	–	96,623
Segment results	47,874	5,869	466	54,209
Other income				5,127
Central administration costs				(41,403)
Impairment loss recognised on debt instruments at FVTOCI				(120)
Changes in fair value of financial assets at FVTPL				(641)
Finance costs				(5,823)
Share of results of associates				(122,547)
Impairment loss reversed on interest in an associate				75,640
Loss before tax				(35,558)

6. SEGMENT INFORMATION (continued)

Segment revenue and results (continued)

For the year ended 31 December 2017

	Finance leasing and other financial services HK$'000	Property leasing and building management services HK$'000	Assets management HK$'000	Total HK$'000
Segment revenue	105,896	3,616	–	109,512
Segment results	46,452	13,604	752	60,808
Other income				525
Central administration costs				(27,597)
Changes in fair value of financial assets at FVTPL				67
Finance costs				(2,445)
Share of results of an associate				(11,947)
Impairment loss on interest in an associate				(9,626)
Profit before tax				9,785

Segment revenue reported above represents revenue generated from external customers. There were no inter-segment sales in the current and prior years.

The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 3. Segment result represents the profit earned or loss incurred by each segment without allocation of central administration costs including Directors' salaries, certain other income, changes in fair value of financial assets at FVTPL, finance costs, share of results of associates and, impairment loss reversed/recognised on interest in an associate. This is the measure reported to the CODM for the purposes of resource allocation and assessment of segment performance.

6. SEGMENT INFORMATION (continued)

Segment assets and liabilities

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

	2018 HK$'000	2017 HK$'000
Segment assets		
Finance leasing and other financial services	**1,630,631**	2,259,787
Property leasing and building management services	**73,200**	118,000
Assets management	**79,374**	25,649
Total segment assets	**1,783,205**	2,403,436
Interest in an associate	**1,591**	204,325
Equity instrument at FVTOCI	**11,558**	–
Debt instruments at FVTOCI	**69,870**	–
Financial assets at FVTPL	**2,371**	3,923
Structured deposit	**–**	12,048
Non-current asset classified as held for sale	**110,212**	–
Other unallocated corporate assets	**239,407**	7,223
Consolidated assets	**2,218,214**	2,630,955

	2018 HK$'000	2017 HK$'000
Segment liabilities		
Finance leasing and other financial services	**430,618**	1,014,457
Property leasing and building management services	**167**	593
Assets management	**279**	586
Total segment liabilities	**431,064**	1,015,636
Unallocated secured bank borrowings	**153,632**	31,273
Other unallocated corporate liabilities	**7,428**	4,589
Consolidated liabilities	**592,124**	1,051,498

6. SEGMENT INFORMATION (continued)

Segment assets and liabilities (continued)

For the purpose of monitoring segment performances and allocating resources between segments:

– all assets are allocated to reportable segments other than interest in an associate, equity instrument at FVTOCI, debt instruments at FVTOCI, financial assets at FVTPL, structured deposit, non-current asset classified as held for sale and other unallocated corporate assets (including primarily unallocated property, plant and equipment, bank balances and cash and prepayments).

– all liabilities are allocated to reportable segments other than unallocated secured bank borrowings not for finance leasing and other financial services and other unallocated corporate liabilities.

Other segment information

For the year ended 31 December 2018

	Finance leasing and other financial services HK$'000	Property leasing and building management services HK$'000	Assets management HK$'000	Unallocated HK$'000	Total HK$'000
Additions to non-current assets (Note)	149	–	24	2,475	2,648
Depreciation of property, plant and equipment	642	23	4	529	1,198
Increase in fair value of investment properties	–	3,147	–	–	3,147
Interest income from bank deposits, structured deposits and debt instruments at FVTOCI	9,395	–	843	2,223	12,461
Impairment loss reversed on finance lease receivables	1,362	–	–	–	1,362
Impairment loss recognised on debt instruments at FVTOCI	–	–	–	120	120

6. SEGMENT INFORMATION (continued)

Other segment information (continued)

For the year ended 31 December 2017

	Finance leasing and other financial services HK$'000	Property leasing and building management services HK$'000	Assets management HK$'000	Unallocated HK$'000	Total HK$'000
Additions to non-current assets (Note)	426	–	–	36	462
Depreciation of property, plant and equipment	579	20	–	21	620
Increase in fair value of investment properties	–	10,781	–	–	10,781
Interest income from bank deposits	2,301	–	921	361	3,583
Impairment loss reversed on finance lease receivables	672	–	–	–	672

Note: Non-current assets exclude goodwill, interest in an associate, financial assets and deferred tax assets.

Geographical information

The Group operates in two principal geographical areas – Mainland China and Hong Kong.

The Group's revenue from external customers by location of the relevant subsidiary's operations and information about its non-current assets by location of assets are detailed below:

	Revenue from external customers		Non-current assets	
	2018 HK$'000	2017 HK$'000	**2018 HK$'000**	2017 HK$'000
Mainland China	**94,965**	107,387	**44,830**	47,760
Hong Kong	**1,658**	2,125	**39,514**	87,037
	96,623	109,512	**84,344**	134,797

Note: Non-current assets exclude goodwill, interests in associates, financial assets and deferred tax assets.

6. SEGMENT INFORMATION (continued)

Information about major customers

Revenue from customers contributing over 10% of the total revenue of the Group under reportable segment of finance leasing and other financial services for the corresponding years is as follows:

	2018	2017
	HK$'000	HK$'000
Customer A	**22,863**	N/A[1]
Customer B	**19,978**	29,628
Customer C	**19,978**	28,438
Customer D	**19,331**	28,435

1 The corresponding revenue did not contribute over 10% of the total revenue of the Group.

7. OTHER INCOME

	2018	2017
	HK$'000	HK$'000
Interest income		
– bank deposits	**1,529**	360
– structured deposits	**10,231**	3,223
– debt instruments at FVTOCI	**701**	–
	12,461	3,583
Dividend income from financial assets at FVTPL	**–**	41
Recovery of finance lease receivables previously written off	**1,280**	–
Government grant (Note)	**1,266**	–
Others	**613**	765
	15,620	4,389

Note: During the year ended 31 December 2018, government grant included subsidies and awards of HK$1,266,000 (2017: HK$Nil) received from the relevant authorities in the PRC which is an incentive payment to the Group whereby no future related cost is required or expected to be made.

8. OTHER GAINS

	2018 HK$'000	2017 HK$'000
Gain on disposal of corporate membership	2,750	–
Gain on disposal of property, plant and equipment	74	11
Gain on disposal of available-for-sale investment	–	274
	2,824	285

9. IMPAIRMENT LOSS, NET OF REVERSAL

	2018 HK$'000	2017 HK$'000
Impairment loss reversed (recognised):		
– Finance lease receivables and entrusted loan payment receivable	1,362	672
– Debt instruments at FVTOCI	(120)	–
	1,242	672

Details of impairment assessment for the year ended 31 December 2018 are set out in Note 42.

10. FINANCE COSTS

	2018 HK$'000	2017 HK$'000
Interest on bank borrowings	48,250	52,825
Less: amount included in cost of finance leases and services	(42,427)	(50,380)
	5,823	2,445

11. INCOME TAX EXPENSE

	2018 HK$'000	2017 HK$'000
Current tax:		
Hong Kong	**4**	42
PRC EIT	**8,739**	12,302
	8,743	12,344
(Over)underprovision in prior years:		
Hong Kong	**(122)**	–
PRC EIT	**101**	–
	(21)	–
Deferred taxation (Note 34)	**5,809**	(138)
	14,531	12,206

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

Under the Law of the PRC on EIT (the "EIT Law") and Implementation Regulation of the EIT Law, the PRC EIT rate of subsidiaries of the Group operating in Mainland China is 25% (2017: 25%).

11. INCOME TAX EXPENSE (continued)

The income tax expense for the year can be reconciled to the (loss) profit before tax in the consolidated statement of profit or loss and other comprehensive income as follows:

	2018	2017
	HK$'000	HK$'000
(Loss) profit before tax	**(35,558)**	9,785
Tax calculated at PRC EIT rate of 25%	**(8,890)**	2,446
Tax effect on share of results of an associate	**30,637**	2,987
Tax effect of expenses not deductible for tax purposes	**1,808**	2,591
Tax effect of income not taxable for tax purposes	**(20,163)**	(2,752)
Tax effect of tax losses not recognised	**11,031**	6,989
Effect of different tax rates of subsidiaries operating in other jurisdiction	**(24)**	(118)
Underprovision in prior years	**(21)**	–
Deferred tax effect of LAT in respect of change in fair value of investment property located in Mainland China	**82**	(191)
Others	**71**	254
Income tax expense for the year	**14,531**	12,206

12. LOSS FOR THE YEAR

	2018 HK$'000	2017 HK$'000
Loss for the year has been arrived at after charging (crediting):		
Staff costs, including the Directors' and chief executive's remuneration (Note 13):		
– Fees	**1,146**	910
– Salaries, wages and other benefits	**26,110**	23,908
– Retirement benefit scheme contributions	**532**	519
Total staff costs	**27,788**	25,337
Auditor's remuneration	**1,420**	1,091
Depreciation of property, plant and equipment	**1,198**	620
Gain on disposal of property, plant and equipment	**74**	11
Exchange loss (gain), net	**36**	(5)
Gross rent from investment properties	**(3,133)**	(3,616)
Less: direct operating expenses from investment properties that generated rental income during the year	**214**	305
	(2,919)	(3,311)

13. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

(a) Directors' and chief executive's emoluments

Directors' and chief executive's remuneration for the year, disclosed pursuant to the applicable Listing Rules and Companies Ordinance, are as follows:

For the year ended 31 December 2018

	Xu Liang HK$'000	Liu Dongsheng[1] HK$'000	Yang Junlin[2] HK$'000	Yuan Wenxin[2] HK$'000	Total HK$'000
EXECUTIVE DIRECTORS					
Fees	–	–	–	19	19
Other emoluments					
Salaries, allowances and benefits in kind	2,160	2,605	–	–	4,765
Retirement benefit scheme contributions	18	18	–	–	36
Total emoluments	2,178	2,623	–	19	4,820

The executive directors' emoluments shown above were paid for their services in connection with the management of the affairs of the Company and the Group.

	Huang Donglin[3] HK$'000	Leung Shun Sang, Tony[4] HK$'000	Total HK$'000
NON-EXECUTIVE DIRECTORS			
Fees	118	73	191

The non-executive directors' emoluments shown above were paid for their services as directors of the Company.

13. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (continued)

(a) Directors' and chief executive's emoluments (continued)

For the year ended 31 December 2018 (continued)

	Tam King Ching, Kenny HK$'000	Yip Kin Man, Raymond HK$'000	Fei Jianjiang(5) HK$'000	Wan Siu Wah, Wilson(5) HK$'000	Zhou Jianhong(4) HK$'000	Total HK$'000
INDEPENDENT NON-EXECUTIVE DIRECTORS						
Fees	240	240	182	182	92	936

The independent non-executive directors' emoluments shown above were paid for their services as directors of the Company.

Notes:

(1) Appointed on 6 January 2018

(2) Resigned on 6 January 2018

(3) Appointed on 18 May 2018

(4) Retired on 18 May 2018

(5) Appointed on 29 March 2018

13. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (continued)

(a) Directors' and chief executive's emoluments (continued)

For the year ended 31 December 2017

	Li Shaofeng[(1)] HK$'000	Xu Liang[(2)] HK$'000	Luo Zhenyu[(3)] HK$'000	Wang Tian[(1)] HK$'000	Wang Qinghua[(3)] HK$'000	Yang Junlin[(4)] HK$'000	Yuan Wenxin[(5)] HK$'000	Total HK$'000
EXECUTIVE DIRECTORS								
Fees	–	–	–	–	–	–	–	–
Other emoluments								
Salaries, allowances and benefits in kind	–	2,400	–	652	–	1,800	1,440	6,292
Retirement benefit scheme contributions	–	18	–	33	–	18	72	141
Total emoluments	–	2,418	–	685	–	1,818	1,512	6,433

The executive directors' emoluments shown above were paid for their services in connection with the management of the affairs of the Company and the Group.

	Leung Shun Sang, Tony[(6)] HK$'000
NON-EXECUTIVE DIRECTOR	
Fee	190

13. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (continued)

(a) Directors' and chief executive's emoluments (continued)

For the year ended 31 December 2017 (continued)

The non-executive director's emolument shown above was paid for his services as director of the Company.

	Tam King Ching, Kenny HK$'000	Zhou Jianhong(6) HK$'000	Yip Kin Man, Raymond HK$'000	Total HK$'000
INDEPENDENT NON-EXECUTIVE DIRECTORS				
Fees	240	240	240	720

The independent non-executive directors' emoluments shown above were paid for their services as directors of the Company.

Mr. Xu Liang is also the Chief Executive of the Company and his emoluments disclosed above include those for services rendered by him as the Chief Executive.

For the year ended 31 December 2017, Mr. Li Shaofeng, the former Chairman of the Company, waived his emoluments as Chief Executive of the Company of HK$815,000.

Notes:

(1) Resigned on 14 June 2017

(2) Appointed on 1 January 2017

(3) Resigned on 1 January 2017

(4) Appointed on 1 January 2017 and resigned on 6 January 2018

(5) Resigned on 6 January 2018

(6) Retired on 18 May 2018

13. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS (continued)

(b) Employees' emoluments

The five highest paid employees of the Group during the year included two directors (2017: three directors), details of whose remuneration are set out in the disclosures above. Details of the remuneration for the year of the remaining three (2017: two) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2018 HK$'000	2017 HK$'000
Salaries and other benefits	3,835	2,183
Retirement benefit schemes contributions	54	36
	3,889	2,219

The number of the highest paid employees who are not the Directors and whose remuneration fell within the following bands is as follows:

	2018 No. of employees	2017 No. of employees
Nil to HK$1,000,000	1	1
HK$1,000,001 to HK$1,500,000	1	1
HK$1,500,001 to HK$2,000,000	1	–

During the year, no remuneration was paid by the Group to the directors of the Company or the five highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office.

14. DIVIDENDS

No dividend is paid, declared or proposed during the years ended 31 December 2018 and 2017, and no dividend has been proposed since the end of the reporting period.

15. LOSS PER SHARE

The calculation of the basic and diluted loss per share attributable to owners of the Company is based on the following data:

	2018 HK$'000	2017 HK$'000
Loss for the year attributable to owners of the Company for the purposes of basic and diluted loss per share	**(58,882)**	(11,332)

	2018 '000	2017 '000 (restated)
Weighted average number of ordinary shares in issue for the purposes of basic and diluted loss per share	**2,936,882**	2,623,291

The comparative figure of weighted average number of ordinary shares has been restated to reflect the effect of Rights Issue (as defined in Note 35).

For the years ended 31 December 2018 and 2017, the computation of diluted loss per share does not assume the exercise of the Company's outstanding share options since their exercise would result in a decrease in loss per share.

16. PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK$'000 (Note)	Leasehold improvements HK$'000	Other fixed assets HK$'000	Total HK$'000
COST				
At 1 January 2017	20,208	1,961	5,689	27,858
Exchange realignment	1,565	4	99	1,668
Additions	–	–	462	462
Disposals	–	–	(332)	(332)
Written off	–	–	(227)	(227)
At 31 December 2017	21,773	1,965	5,691	29,429
Exchange realignment	(1,143)	(3)	(69)	(1,215)
Additions	–	544	2,104	2,648
Acquired on acquisition of a subsidiary	–	–	6	6
Disposals	–	–	(913)	(913)
Written off	–	(1,880)	(340)	(2,220)
At 31 December 2018	20,630	626	6,479	27,735
ACCUMULATED DEPRECIATION AND IMPAIRMENT				
At 1 January 2017	4,360	1,959	5,562	11,881
Exchange realignment	248	4	101	353
Provided for the year	480	2	138	620
Eliminated on disposals	–	–	(332)	(332)
Eliminated on written off	–	–	(227)	(227)
At 31 December 2017	5,088	1,965	5,242	12,295
Exchange realignment	(213)	(3)	(53)	(269)
Provided for the year	489	21	688	1,198
Eliminated on disposals	–	–	(908)	(908)
Eliminated on written off	–	(1,880)	(340)	(2,220)
At 31 December 2018	5,364	103	4,629	10,096
CARRYING VALUES				
At 31 December 2018	15,266	523	1,850	17,639
At 31 December 2017	16,685	–	449	17,134

Note: In the opinion of the Directors, the lease payments cannot be allocated reliably between the land and building elements. Thus, entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

16. PROPERTY, PLANT AND EQUIPMENT (continued)

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

Leasehold land and buildings	Over the shorter of term of the lease of the land or 50 years
Leasehold improvements	Over the shorter of term of the lease or 5 years
Other fixed assets	10% – 30%

At 31 December 2018, all of the Group's leasehold land and buildings are located on land in Mainland China with the remaining lease terms of 32 years (2017: 33 years).

17. INVESTMENT PROPERTIES

	HK$'000
FAIR VALUE	
At 1 January 2017	123,038
Net increase in fair value recognised in profit or loss	10,781
Disposals	(18,564)
Exchange realignment	2,408
At 31 December 2017	117,663
Net increase in fair value recognised in profit or loss	3,147
Disposals	(52,351)
Exchange realignment	(1,754)
At 31 December 2018	66,705

For the year ended 31 December 2018, unrealised gain relating to investment properties amounted to HK$396,000 (2017: HK$6,727,000) is included in the net increase in fair value recognised in profit or loss.

All of the Group's property interests held to earn rentals are measured using the fair value model and are classified and accounted for as investment properties.

17. INVESTMENT PROPERTIES (continued)

The fair values of the Group's investment properties at 31 December 2018 and 2017 have been arrived at on the basis of a valuation carried out on those dates by Greater China Appraisal Limited, an independent qualified professional valuer not connected with the Group. Greater China Appraisal Limited is a registered firm of the Hong Kong Institute of Surveyors, and has appropriate qualifications and experience. The valuation was arrived at by reference to market evidence of transaction prices for similar properties in the same location and conditions and where appropriate by capitalisation of rental income from properties.

In estimating the fair value of the properties, the highest and best use of the properties is their current use.

Market comparable approach has been adopted for valuing the Group's residential property units. One of the key inputs used in valuing the Group's residential property units was the price per square foot, which ranged from HK$13,492 to HK$17,228 per square foot (2017: HK$12,884 to HK$20,964 per square foot). An increase in the price per square foot used would result in an increase in fair value measurement of the residential property units, and vice versa.

Market comparable approach has been adopted for valuing the Group's commercial property units. One of the key inputs used in valuing the Group's commercial property units was the price per square foot, which is HK$5,079 per square foot (2017: HK$5,343 per square foot). An increase in the price per square foot used would result in an increase in fair value measurement of the commercial property units, and vice versa.

During the year ended 31 December 2018, a residential property unit was disposed of at a consideration of HK$52,351,000 (2017: an industrial property unit at HK$18,564,000).

17. INVESTMENT PROPERTIES (continued)

Details of the Group's investment properties and information about the fair value hierarchy as at 31 December 2018 and 2017 are as follows:

	Level 3		Fair value	
	2018	2017	**2018**	2017
	HK$'000	HK$'000	**HK$'000**	HK$'000
Residential property units located in Hong Kong	**37,500**	86,940	**37,500**	86,940
Commercial property units located in Mainland China	**29,205**	30,723	**29,205**	30,723

There were no transfers out of Level 3 for both years.

At 31 December 2018, all of the Group's investment properties are located on land in Hong Kong and Mainland China with the remaining lease terms of 32 to 115 years (2017: 33 to 116 years).

All of the Group's investment properties located in Hong Kong have been pledged to banks to secure general banking facilities granted to the Group (Note 36).

18. GOODWILL

	HK$'000
COST	
At 1 January 2017 and 31 December 2017	254,789
Arising on acquisition of a subsidiary (Note 40)	921
Exchange realignment	(14,477)
At 31 December 2018	241,233
IMPAIRMENT	
At 1 January 2017 and 31 December 2017	(201,854)
Exchange realignment	11,469
At 31 December 2018	(190,385)
CARRYING VALUE	
At 31 December 2018	50,848
At 31 December 2017	52,935

Particulars regarding impairment testing on goodwill are disclosed in Note 19.

19. IMPAIRMENT TESTING ON GOODWILL

For the purposes of impairment testing, goodwill set out in Note 18 have been allocated to two individual CGUs, comprising one subsidiary in finance leasing and other financial service segment and one subsidiary in assets management segment.

The recoverable amounts of the CGUs arising from finance leasing and other financial services division and assets management division have been determined on the basis of value in use calculations. For the purpose of impairment testing, the value in use calculations use cash flow projections based on financial budgets approved by management covering a 5-year period and a pre-tax discount rate of 6.5% and 6.5% (2017: 6.5% and N/A) for finance leasing and other financial services division and assets management division, respectively. Cash flows beyond the 5-year period are extrapolated using zero growth rate. Other key assumptions for the value in use calculations relate to the estimation of cash inflows and outflows which include budgeted revenue and gross margins during the budget period. Budgeted revenue and gross margins have been determined based on past performance and management's expectations for the market development. Management believes that any reasonably possible change in any of these assumptions would not cause the carrying amounts of the below CGUs to exceed the recoverable amount of the below CGUs.

The carrying amounts of goodwill (net of accumulated impairment losses) allocated to these units are as follows:

	2018 HK$'000	2017 HK$'000
Finance leasing and other financial service segment		
– South China International Leasing Co., Ltd. ("South China Leasing")	**49,927**	52,935
Assets management segment		
– 首華京西協同創新(北京)科技發展有限公司 (Shouhua Jingxi Cooperative Innovation (Beijing) Technology Development Co., Ltd.*) ("Shouhua Jingxi Cooperative Innovation")	**921**	–
	50,848	52,935

* *For identification purpose only*

20. INTEREST IN AN ASSOCIATE

	2018 HK$'000	2017 HK$'000
Cost of investment in an associate		
Listed in Hong Kong	–	186,613
Unlisted	1,573	–
Share of post-acquisition results	18	168,693
Share of post-acquisition translation reserve	–	(1,342)
	1,591	353,964
Impairment loss	–	(149,639)
	1,591	204,325
Fair value of listed investment in Hong Kong	–	204,325
Carrying amount of interest in an associate listed in Hong Kong	–	204,325

20. INTEREST IN AN ASSOCIATE (continued)

Details of the Group's principal associates at 31 December 2018 and 2017 are as follows:

Name of entity	Place of incorporation/ establishment/ operation	Proportion of nominal value of issued share capital held by the Group		Proportion of voting power held		Principal activities
		2018	2017	**2018**	2017	
黑龍江首和創業投資管理企業(有限合夥) ("Shouhe Venture Capital")	Mainland China	**24.28%**	–	**24.28%**	–	Investment management
GDC	Bermuda/ Mainland China	**–**	40.78%	**–**	40.78%	Provision and distribution of cultural recreation content including computer graphic ("CG") creation and production, CG training courses and investment in cultural park and property leasing

The interest in GDC has been transferred from interest in an associate to non-current asset classified as held for sale on 28 December 2018. Details are set out in Note 29.

As disclosed in the consolidated financial statements of GDC for the year ended 31 December 2018, upon the lapse of the appeal period for the Final Civil Judgment (as defined below) and the recent actions taken by 珠江電影製片有限公司 ("Pearl River Film Production"), on 1 December 2018, GDC decided to derecognise Phase I of 珠影文化產業園 (the "Pearl River Film Cultural Park") as investment properties of GDC and recognised a loss on derecognition of investment properties of Phase I of the Pearl River Film Cultural Park and made a provision for the accrued rental and settlement payables during the year ended 31 December 2018, which amounted to HK$411,412,000 and HK$95,148,000, respectively. GDC has also ceased recognising all revenue derived from the Phase I of the Pearl River Film Cultural Park from 1 December 2018. As a result of the derecognition of the investment properties of Phase I of the Pearl River Film Cultural Park, the Pearl River Film Cultural Park operation of GDC was discontinued with effect from 1 December 2018. During the year ended 31 December 2018, the share of results of GDC up to the date of transfer to non-current asset classified as held for sale amounts to a loss of HK$122,565,000 (2017: HK$11,947,000).

20. INTEREST IN AN ASSOCIATE (continued)

The table below shows details of interest in GDC at the date of transfer to non-current asset classified as held for sale:

	2018 HK$'000
Cost of investment in GDC	186,613
Share of post-acquisition results up to date of transfer to non-current asset classified as held for sale	46,128
Share of post-acquisition translation reserve up to date of transfer to non-current asset classified as held for sale	(17,670)
Share of post-acquisition property revaluation reserve up to date of transfer to non-current asset classified as held for sale	18,673
Dividends received	(49,533)
	184,211
Accumulated impairment losses	(73,999)
Transferred to non-current asset classified as held for sale (Note 29)	110,212

On 11 April 2016, Pearl River Film Production as the plaintiff (the "Plaintiff") initiated legal proceedings against 廣東環球數碼創意產業有限公司 ("Guangdong Cultural Park"), a subsidiary of GDC, in respect of an alleged breach of the framework agreement governing the lease and reconstruction of the Pearl River Film Cultural Park (the "Alleged Breach").

20. INTEREST IN AN ASSOCIATE (continued)

Guangdong Cultural Park received the civil judgment issued on 11 October 2016 by 中國廣東省廣州市中級人民法院 (the "First Civil Judgment"), which declared that the framework agreement governing the lease and reconstruction of the Pearl River Film Cultural Park was terminated as of 22 March 2016 and Guangdong Cultural Park shall pay late payment surcharges for the overdue rental of RMB2,722,000 (equivalent to HK$3,172,000) and Pearl River Film Production, the landlord of the Pearl River Film Cultural Park, is entitled to keep the construction deposit of RMB20,000,000 (equivalent to HK$23,310,000) paid by Guangdong Cultural Park. All other claims made by Pearl River Film Production and the counterclaim made by Guangdong Cultural Park were dismissed.

On 16 March 2018, Guangdong Cultural Park received the civil judgment of 中國廣東省高級人民法院 ("Guangdong Higher People's Court") dated 31 January 2018, which rejected the appeal lodged by Guangdong Cultural Park and upheld the First Civil Judgment. According to this civil judgment, this judgment of Guangdong Higher People's Court is the final judgment ("Final Civil Judgment").

On 7 August 2018, Guangdong Cultural Park received a letter dated 6 August 2018 from Pearl River Film Production's legal representative, which demanded Guangdong Cultural Park to return the entire Pearl River Film Cultural Park (both Phase I and Phase II) and claimed for compensation of related occupation fee and economic loss amounted to RMB143,076,000 (equivalent to HK$169,521,000).

In September 2018, the corresponding appeal period for the Final Civil Judgment issued by Guangdong Higher People's Court dated 31 January 2018 lapsed. At the end of November 2018, Pearl River Film Production issued a formal demand letter to Guangdong Cultural Park which demanded Guangdong Cultural Park to return the entire Pearl River Film Cultural Park (both Phase I and Phase II) and Pearl River Film Production also attempted to take possession of the Pearl River Film Cultural Park without the consent of GDC.

The carrying amount of interest in GDC has been tested for impairment in accordance with HKAS 36 as a single asset. The Group takes into consideration the estimation of the recoverable amount of the associate which is the higher of value in use and fair value less costs to sell.

In light of the derecognition of investment properties and the matters described above, the cash flow projections have not taken into account of the rental income derived from Phase I of the Pearl River Film Cultural Park and the value in use was below the carrying amount and the fair value less costs of disposal of the interest in this associate. The fair value less costs of disposal is higher than the carrying amount and is determined with reference to the quoted market price of the shares of the associate at the date of transfer to non-current asset classified as held for sale while management of the Group considers that the costs of disposal are insignificant. Accordingly, when the recoverable amount of the associate is the higher of value in use and fair value less costs of disposal, the interest in this associate is stated at its fair value less costs of disposal based on the quoted market price of GDC as at the date of transfer to non-current asset classified as held for sale on 28 December 2018 and taking into account the consideration of the Disposal with Shougang Holding as defined in Note 29. A reversal of impairment loss of HK$75,640,000 is recognised in profit or loss during the year ended 31 December 2018.

20. INTEREST IN AN ASSOCIATE (continued)

Summarised financial information of material associate

Summarised financial information in respect of the Group's material associate for the period from 1 January 2018 up to 28 December 2018 and for the year ended 31 December 2017 is set out below. The summarised financial information below represents the amounts shown in the associate's financial statements prepared in accordance with HKFRSs.

The associate is accounted for using the equity method in these consolidated financial statements.

GDC

	2017 HK$'000
Current assets	339,575
Non-current assets	691,313
Current liabilities	(111,129)
Non-current liabilities	(44,004)

	1 January 2018 to 28 December 2018 **HK$'000**	2017 HK$'000
Revenue	**107,642**	133,915
Loss for the period/year	**(446,537)**	(24,015)
Other comprehensive income for the period/year	**3,077**	54,544
Total comprehensive (expenses) income for the period/year	**(443,460)**	30,529

20. INTEREST IN AN ASSOCIATE (continued)

Summarised financial information of material associate (continued)

Reconciliation of the above summarised financial information to the carrying amount of the interest in an associate recognised in the consolidated financial statements is as follows:

	2017 HK$'000
Net assets of GDC	875,755
Net assets attributable to non-controlling interests of GDC	(25,082)
Net assets attributable to owners of GDC	850,673
Proportion of the Group's ownership interest in GDC	40.78%
The Group's ownership interest in GDC	346,916
Impairment loss	(149,639)
Other adjustments	7,048
Carrying amount of the Group's interest in GDC	204,325

Information of an associate that is not individually material

	Year ended 31 December 2018 HK$'000	Year ended 31 December 2017 HK$'000
The Group's share of profit for the year	**18**	–
The Group's share of total comprehensive income	**18**	–
Carrying amount of the Group's interest in this associate	**1,591**	–

The Group has no associate that is not individually material for the year ended 31 December 2017.

21. FINANCE LEASE RECEIVABLES

	Minimum lease receipts		Present value of minimum lease receipts	
	2018	2017	**2018**	2017
	HK$'000	HK$'000	**HK$'000**	HK$'000
	(Note)	(Note)		
Finance lease receivables comprise:				
Within one year	**540,339**	929,514	**493,717**	846,814
In more than one year but not more than two years	**393,899**	506,307	**371,959**	452,106
In more than two years but not more than three years	**96,062**	417,628	**85,915**	394,366
In more than three years but not more than four years	**90,251**	101,848	**85,227**	91,090
In more than four years but not more than five years	**–**	95,688	**–**	90,361
	1,120,551	2,050,985	**1,036,818**	1,874,737
Overdue finance lease receivables	**11,325**	12,092	**11,325**	12,092
Less: Unearned finance lease income	**(83,733)**	(176,248)	**N/A**	N/A
Present value of minimum lease receipts	**1,048,143**	1,886,829	**1,048,143**	1,886,829

21. FINANCE LEASE RECEIVABLES (continued)

	2018	2017
	HK$'000	HK$'000
Analysed as:		
Current finance lease receivables (receivable within 12 months)	**505,042**	858,906
Non-current finance lease receivables (receivable after 12 months)	**543,101**	1,027,923
	1,048,143	1,886,829

	2018	2017
	HK$'000	HK$'000
Fixed-rate finance lease receivables	**549,830**	810,200
Variable-rate finance lease receivables	**498,313**	1,076,629
	1,048,143	1,886,829

Note: The minimum lease receipts amounts as at 31 December 2018 and 2017 are presented using the prevailing People's Bank of China Renminbi Lending Rate ("PBC rate") or Offshore Chinese Renminbi Hong Kong Interbank Offered Rate ("CNH HIBOR") as at 31 December 2018 and 2017, respectively.

Effective interest rates per annum of the above finance lease receivables for the year are as follows:

	2018	2017
Effective interest rates		
Fixed-rate finance lease receivables	**5.0% to 12.0%**	5.0% to 12.0%
Variable-rate finance lease receivables	**5.0% to 6.9%**	5.0% to 6.7%

Interest rate of variable-rate finance lease receivables is reset when there is a change of the prevailing PBC rate or CNH HIBOR.

As at 31 December 2018, carrying value of the finance lease receivables of HK$335,876,000 (2017: HK$878,751,000) have been pledged against specific bank borrowings granted to the Group (Note 36). The pledges will be released upon the settlement of bank borrowings.

21. FINANCE LEASE RECEIVABLES (continued)

Movement in provision for finance lease receivables

	HK$'000
At 1 January 2017	111,661
Impairment losses reversed	(672)
Write-off of impairment losses previously recognised	(23,059)
Exchange realignment	9,385
At 31 December 2017	97,315
Remeasurement of loss allowance under ECL model (see Note 2)	12,765
At 1 January 2018 (restated)	**110,080**
Impairment losses reversed	**(1,362)**
Write-off of impairment losses previously recognised	**(21,313)**
Exchange realignment	**(6,255)**
At 31 December 2018	**81,150**

As at 31 December 2018, the provision for finance lease receivables amounted to HK$81,150,000 of which an amount of HK$70,472,000 is related to credit-impaired finance lease receivables and those borrowers were either under severe financial difficulties, placed in liquidation or in legal proceedings. In the opinion of the Directors, these amounts cannot be recovered due to the debtors' default in payment.

As at 31 December 2017, the provision for finance lease receivables amounted to HK$97,315,000 which were individually impaired finance lease receivables, and the borrowers were either under severe financial difficulties, placed in liquidation or in legal proceedings. In the opinion of the Directors, these amounts cannot be recovered due to the debtors' default in payment.

21. FINANCE LEASE RECEIVABLES (continued)

Movement in provision for finance lease receivables (continued)

Included in the Group's finance lease receivables are six (2017: seven) lessees with a total carrying amount of HK$11,325,000 (2017: HK$12,092,000) which are past due as at the end of the reporting period but not impaired as they are fully secured by the security deposits received by the Group in accordance with the finance lease agreements.

The following is an aged analysis at the end of the reporting period of the finance lease receivables which is past due but not impaired:

	2018 **HK$'000**	2017 HK$'000
Over six months	**11,325**	12,092

Security deposits of HK$47,689,000 (2017: HK$92,815,000) have been received by the Group to secure the finance lease receivables and classified into current liabilities and non-current liabilities based on the final lease instalment due date stipulated in the finance lease agreements.

	2018 **HK$'000**	2017 HK$'000
Analysed as:		
Security deposits received – due within one year	**33,484**	54,261
Security deposits received – due after one year	**14,205**	38,554
	47,689	92,815

In addition, the finance lease receivables are secured over the leased assets mainly aeroplane engines, machineries and build and transfer project of a scenic belt as at 31 December 2018 and 2017.

The Group is not permitted to sell or repledge the collateral of the finance lease receivables in the absence of default by the lessee. Estimates of fair value of collateral are made during the credit approval process, determined using valuation techniques commonly used for the corresponding assets. These estimates of valuations are made at the inception of finance lease, and management would review it periodically. The Group also takes into consideration the financial positions and the guarantors of the relevant customers and the expected timing, legal possession status and other uncertainties on realising the pledged assets in the impairment assessment.

22. EQUITY INSTRUMENT AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2018	2017
	HK$'000	HK$'000
Unlisted equity investment	**11,558**	–

On 1 August 2018, Gold Cosmos Development Limited ("Gold Cosmos"), a wholly-owned subsidiary of the Company, injected RMB10,000,000 to 北京京西供應鏈管理有限公司 (Beijing Jingxi Supply Chain Management Co., Ltd.*) ("Beijing Jingxi Supply Chain") as its registered capital, which then holds 10% equity interest in Beijing Jingxi Supply Chain pursuant to an agreement signed in April 2018. Beijing Jingxi Supply Chain is established in the PRC and engaged in supply chain finance business. Gold Cosmos also entered into a capital increase agreement with 北京首鋼基金有限公司 (Beijing Shougang Fund Co., Ltd.*) ("Shougang Fund") and Beijing Jingxi Supply Chain in June 2018, pursuant to which Gold Cosmos agreed to contribute additional capital of RMB200,000,000 to Beijing Jingxi Supply Chain and thereby increased the equity interest Gold Cosmos held in Beijing Jingxi Supply Chain from 10% to 70% ("Capital Increase"), subject to certain conditions precedent. On 31 December 2018, a supplemental agreement was entered to extend the long stop date of the Capital Increase from 31 December 2018 to 30 June 2019. Details are set out in the Company's announcements dated 13 June 2018 and 31 December 2018. As at the date of approving the issuance of these consolidated financial statements, the Capital Increase is not yet completed since it is subject to the government approval. Capital Commitment has been disclosed in Note 46.

* *For identification purpose only*

The Directors have elected to designate this investment as equity instrument at FVTOCI as the Group intends to hold this investment for long-term purpose and realise its performance potential in the long run. As at 31 December 2018, the fair value of the investment determined by income approach was RMB10,000,000 (equivalent to HK$11,558,000).

23. DEBT INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	2018 HK$'000	2017 HK$'000
Investments in listed bonds, with fixed interest of 3.63% to 6.25% and maturity dates from January 2020 to May 2025	**69,870**	–

As at 31 December 2018, the fair value of the investment in listed bonds is determined by reference to the quoted market bid prices available and a loss on changes in fair value on the listed bonds of HK$126,000 has been recognised in other comprehensive income during the year ended 31 December 2018.

Details of impairment assessment are set out in Note 42.

24. ENTRUSTED LOAN PAYMENT RECEIVABLE

Pursuant to the entrusted loan contract entered into between an independent third party and the Group on 23 August 2018, the Group agreed to provide the independent third party with entrusted loan amounting to US$1,039,983 (equivalent to HK$8,175,000) at a fixed interest rate of 7% per annum, with a maturity date of 22 January 2019. Interest income of HK$202,000 has been recognised in profit or loss during the year ended 31 December 2018. The amount was subsequently settled in January 2019.

25. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2018 HK$'000	2017 HK$'000
Other receivables	**2,353**	2,567
Prepayments	**2,131**	1,495
Deposits	**2,288**	1,935
	6,772	5,997

26. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018 HK$'000	2017 HK$'000
Listed equity securities mandatory measured at FVTPL/ Held-for-trading:		
– in Hong Kong	**2,371**	3,095
– in Mainland China	**–**	828
	2,371	3,923

The fair value of the listed equity securities is determined by reference to the quoted market bid prices available and loss on changes in fair value on the listed equities of HK$641,000 has been recognised in profit or loss during the year ended 31 December 2018.

The Group's investments were no longer held-for-trading and the Group did not elect to designate the equity securities as FVTOCI but continued to be measured at FVTPL.

27. STRUCTURED DEPOSIT

As at 31 December 2017, the structured deposit consisted of principal-protected deposit denominated in Renminbi and issued by bank in Mainland China. The structured deposit carried interest at expected interest rate of 3.5% per annum, depending on the market prices of the underlying money market instruments and debt instruments invested by the bank, payable on maturity of 91 days from the date of purchase. The Directors consider the fair value of the structured deposit, which was measured by reference to the discounted cash flow approach, as disclosed in Note 42(c), approximated to its carrying value.

The structured deposit at 31 December 2017 was redeemed in March 2018. The change in fair value up to the date of redemption was not significant.

28. RESTRICTED BANK DEPOSITS/BANK BALANCES AND CASH

Restricted bank deposits

The amount as at 31 December 2017 represented Renminbi denominated bank deposits which had been released upon the full settlement of the relevant bank borrowings in November 2018. The deposits carried interest at average interest rate of 0.38% per annum.

Bank balances and cash

The Group's deposits carry interest rate at prevailing bank deposit rates ranging from 0.01% to 2.51% (2017: 0.01% to 0.2%) per annum.

	2018	2017
	HK$'000	HK$'000
Analysed as:		
HK$ denominated bank balances and cash	**231,016**	3,109
Renminbi denominated bank balances and cash	**575,134**	285,112
	806,150	288,221

29. NON-CURRENT ASSET CLASSIFIED AS HELD FOR SALE

On 21 November 2018, SCG Investment (BVI) Limited (a wholly owned subsidiary of the Company), as vendor, entered into sale and purchase agreement with Shougang Holding, as purchaser, in relation to the disposal of Upper Nice Assets Ltd., which holds 619,168,023 shares of GDC, representing approximately 40.78% equity interest in GDC (the "Disposal with Shougang Holding"), at a consideration of HK$154,792,006.

Resolutions regarding the Disposal with Shougang Holding were duly passed by the shareholders of the Company by way of poll at the special general meeting held on 28 December 2018 and the equity interest in GDC with carrying amount of HK$110,212,000 has been transferred from interest in an associate to non-current asset classified as held for sale on 28 December 2018. The sale of the equity interest in GDC is highly probable as all the condition precedents have been met on the date of the aforesaid special general meeting. The Disposal with Shougang Holding was completed subsequently on 8 January 2019. Details are set out in the Company's announcements dated 21 November 2018 and 9 December 2018.

	2018	2017
	HK$'000	HK$'000
Interest in an associate (Note 20)	**110,212**	–

Non-current asset classified as held for sale is measured at the lower of its the then carrying amount and fair value less costs of disposal.

30. OTHER PAYABLES AND ACCRUALS

	2018 HK$'000	2017 HK$'000
Accrued salaries and bonuses	**3,858**	4,799
Accrued legal and professional fees	**4,235**	1,301
Other tax payables	**7,502**	16,341
Interest payable	**1,390**	3,018
Others	**3,271**	1,108
	20,256	26,567

31. INCOME RECEIVED IN ADVANCE

As at 31 December 2017, the income received in advance represented handling service fee income received from finance lease borrowers for administrative services provided over the relevant lease term.

	2018 HK$'000	2017 HK$'000
Analysed for reporting purposes:		
Current	**–**	7,589
Non-current	**–**	3,678
	–	11,267

Non-current portion of income received in advance represented handling fee income to be realised after twelve months.

Upon adoption of HKFRS 15 as at 1 January 2018, income received in advance of HK$11,267,000 in respect of handing service fee income on finance lease receivable contracts signed with customers are reclassified to contract liabilities.

32. CONTRACT LIABILITIES

	31 December 2018 HK$'000	1 January 2018* HK$'000
Handling service fee income received in advance	**3,992**	11,267
Analysed for reporting purposes:		
Current	**3,221**	7,589
Non-current	**771**	3,678
	3,992	11,267

* The amounts in this column are after the adjustments from the application of HKFRS 15.

The following table shows how much of the revenue recognised in the current year relates to carried-forward contract liabilities and how much relates to performance obligations that were satisfied in prior periods.

	Handling service fee income HK$'000
Revenue recognised that was included in the contract liabilities balance at the beginning of the year	7,589

Contract liabilities are recognised by the Group for the portion of handling service fee income that the Group collected from finance lease borrowers in relation to the administrative services that have not been performed. The Group typically receives a 100% service fee deposits from customers when they enter into the finance lease agreements with the Group.

33. SECURED BANK BORROWINGS

	2018 HK$'000	2017 HK$'000
Secured bank borrowings	**494,541**	896,494
Carrying amount repayable (Note):		
Within one year	**85,227**	503,775
More than one year, but not exceeding two years	**85,227**	90,363
More than two years, but not exceeding three years	**85,227**	90,361
More than three years, but not exceeding four years	**85,228**	90,361
More than four years, but not exceeding five years	**–**	90,361
	340,909	865,221
Carrying amount of bank borrowings that contain a repayable on demand clause (shown under current liabilities) but repayable:		
Within one year	**142,674**	3,946
More than one year, but not exceeding two years	**2,748**	4,044
More than two years, but not exceeding three years	**2,825**	4,146
More than three years, but not exceeding four years	**2,904**	4,251
More than four years, but not exceeding five years	**2,481**	4,357
More than five years	**–**	10,529
	153,632	31,273
	494,541	896,494
Less: Amounts due within one year shown under current liabilities	**(238,859)**	(535,048)
Amounts due after one year	**255,682**	361,446

Note: The amounts are based on scheduled repayment dates set out in the loan agreements.

33. SECURED BANK BORROWINGS (continued)

	2018 HK$'000	2017 HK$'000
Analysed for reporting purpose:		
Fixed-rate secured bank borrowings	–	24,056
Variable-rate secured bank borrowings	494,541	872,438
	494,541	896,494

The ranges of effective interest rates on the Group's secured bank borrowings are as follows:

	2018	2017
Effective interest rate:		
Fixed-rate secured bank borrowings	N/A	4.8%
Variable-rate secured bank borrowings	2.19% to 5.89%	2.19% to 5.7%

The Group's secured bank borrowings that are denominated in currencies other than the functional currencies of the relevant group entities are set out below:

	2018 HK$'000	2017 HK$'000
Denominated in HK$	153,632	31,273

The interest rates for the Group's bank borrowings vary from different subsidiaries. The interest rates vary from Hong Kong banks' prime rate minus 2.75%, Hong Kong Interbank Offered Rate ("HIBOR") plus 1% to 2.5% and variable PBC rate plus a percentage spread of 20% (2017: Hong Kong banks' prime rate minus 2.75%, HIBOR plus 1% to 2%, CNH HIBOR plus 1.1% and variable PBC rate plus a percentage spread of 20%). Secured bank borrowings of HK$153,632,000 (2017: HK$31,273,000) are exposed to the fluctuations of HIBOR and Hong Kong banks' prime rate while the remaining HK$340,909,000 (2017: HK$841,165,000) are exposed to the fluctuation of PBC rate. The interest is repricing every month for secured bank borrowings of HK$13,632,000 (2017: HK$31,273,000), repricing every quarter for secured bank borrowings of HK$480,909,000 (2017: HK$841,165,000). The proceeds were used as funding for finance leasing and other financial services business and general working capital for the Group for the years ended 31 December 2018 and 2017.

During the year ended 31 December 2018, secured bank borrowings of HK$14,029,000 has been early repaid.

34. DEFERRED TAXATION

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

	Provision for finance lease receivables and entrusted loan receivable	Revaluation of property and fair value change of investment properties	Total
	HK$'000	HK$'000	HK$'000
At 1 January 2017	(30,310)	10,088	(20,222)
Charge (credit) to profit or loss	168	(306)	(138)
Exchange realignment	(2,548)	839	(1,709)
At 31 December 2017	(32,690)	10,621	(22,069)
Remeasurement of loss allowance under ECL model (see Note 2)	(3,191)	–	(3,191)
At 1 January 2018	**(35,881)**	**10,621**	**(25,260)**
Charge to profit or loss	**5,669**	**140**	**5,809**
Exchange realignment	**2,038**	**(593)**	**1,445**
At 31 December 2018	**(28,174)**	**10,168**	**(18,006)**

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

	2018	2017
	HK$'000	HK$'000
Deferred tax assets	**(18,006)**	(22,069)

At the end of the reporting period, the Group has unused tax losses of HK$412,354,000 (2017: HK$368,232,000) available for offset against future profits subject to approval from the relevant tax authority. No deferred tax asset has been recognised due to the unpredictability of future profit streams. Tax losses may be carried forward indefinitely.

34. DEFERRED TAXATION (continued)

Under the EIT Law of PRC, withholding tax is imposed on dividends declared in respect of profits earned by the Group's subsidiaries in Mainland China from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary difference attributable to the retained profits earned by the subsidiaries in Mainland China amounting to HK$33.9 million as at 31 December 2018 (2017: HK$16.8 million) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

Under the Provisional Regulations of LAT (《中華人民共和國土地增值稅暫行條例》) effective on 1 January 1994, and the Detailed Implementation Rules on the Provisional Regulations of the PRC on LAT (《中華人民共和國土地增值稅暫行條例實施細則》) effective from 27 January 1995, all income from the sale or transfer of state-owned land use rights, buildings and their attached facilities in the PRC is subject to LAT at progressive rates ranging from 30% to 60% of the appreciation value, being the proceeds of sales of properties less deductible expenditures in relation to the gains arising from sales of properties in the PRC effective from 1 January 2004.

35. SHARE CAPITAL

	Number of shares	Amount HK$'000
Ordinary shares of HK$0.01 each		
Authorised:		
At 1 January 2017, 31 December 2017 and 31 December 2018	10,000,000,000	100,000
Issued and fully paid:		
At 1 January 2017 and 31 December 2017	2,672,192,469	26,722
Issue of shares upon rights issue (Note)	1,336,096,234	13,361
At 31 December 2018	4,008,288,703	40,083

Note: On 31 October 2018, the Company allotted and issued 1,336,096,234 new shares on the basis of one rights share for every two existing shares held at the subscription price of HK$0.138 per rights share to those qualifying shareholders whose names appeared on the register of members of the Company at the close of business on 5 October 2018 ("Rights Issue"). These shares rank pari passu in all respects with the existing shares. The gross proceeds from the Rights Issue and transaction costs incurred amounted to HK$184,381,000 and HK$4,860,000, respectively.

36. CHARGE ON ASSETS

As at 31 December 2018, the Group has the following charge on assets:

(i) The Group's investment properties with an aggregate carrying value of HK$37,500,000 (2017: HK$86,940,000) were pledged to banks to secure for bank borrowings with outstanding amount of HK$13,632,000 (2017: HK$31,273,000).

(ii) The Group's finance lease receivables with a carrying value of HK$335,876,000 (2017: HK$878,751,000) were pledged to banks to secure for bank borrowings with outstanding amount of HK$340,909,000 (2017: HK$865,221,000).

(iii) As at 31 December 2017, there were bank deposits of HK$19,811,000 restricted for the repayment of bank borrowings, which had been released during the year ended 31 December 2018 upon full settlement of the relevant bank borrowings of HK$24,056,000.

37. OPERATING LEASES

The Group as lessor

Property rental income earned during the year was HK$3,133,000 (2017: HK$3,616,000). The investment properties are expected to generate rental yield of 3.7% (2017: 2.9%) on an ongoing basis. Almost all of the properties held have committed tenants for the next year.

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

	2018 **HK$'000**	2017 HK$'000
Within one year	**431**	2,018
In the second to fifth year inclusive	**–**	16
	431	2,034

37. OPERATING LEASES (continued)

The Group as lessee

Minimum lease payments paid under operating lease in respect of office premises during the year were HK$3,496,000 (2017: HK$3,388,000).

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

	2018	2017
	HK$'000	HK$'000
Within one year	**391**	3,105

Leases for properties are negotiated for a term ranging from one to two years (2017: one to two years) with fixed rentals.

38. SHARE OPTION SCHEMES

The Company operates share option schemes for the purpose of providing incentives or rewards to eligible participants for their contributions to the Group and/or its associated companies.

The Company adopted a share option scheme (the "2002 Scheme") on 7 June 2002.

Eligible participants of the 2002 Scheme included Directors (including executive and non-executive directors), executives, officers, employees or shareholders of the Company or any of its subsidiaries or any of its associated companies and any suppliers, customers, consultants, advisers, agents, partners or business associates.

Share options granted to a director, executive or substantial shareholders of the Company, or to any of their associates, are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, in excess of in aggregate 0.1% of the shares of the Company in issue on the date of grant and with an aggregate value (based on the closing price of the Company's shares at the date of the grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

38. SHARE OPTION SCHEMES (continued)

The period during which a share option may be exercised is determined by the Directors at their absolute discretion, save that no share option may be exercised more than ten years after it has been granted under the 2002 Scheme. There is no requirement that a share option must be held for any minimum period before it can be exercised but the Directors are empowered to impose at their discretion any such minimum period at the time of grant of any share options.

The exercise price in relation to each share option is determined by the Directors at their absolute discretion and shall not be less than the highest of (i) the closing price of the shares of the Company as stated in the daily quotation sheet of the Stock Exchange on the date of offer of share options; (ii) the average of the closing prices of the shares of the Company as stated in the daily quotation sheets of the Stock Exchange for the five business days immediately preceding the date of offer of share options; and (iii) the nominal value of the share of the Company on the date of offer of share options. Each grantee is required to pay HK$1.00 as consideration for the grant of share options in accordance with the 2002 Scheme. The offer of share options must be accepted within 60 days from the date of the offer.

Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

The 2002 Scheme was terminated on 29 May 2012, no further options can be granted under the 2002 Scheme. However, the share options granted under the 2002 Scheme prior to its termination shall continue to be valid and exercisable in accordance with the 2002 Scheme.

The share option scheme which has been adopted on 25 May 2012 (the "2012 Scheme") continues to enable the Company to grant share options to selected participants as incentives or rewards for their contribution or potential contribution to the Company and/or any of its subsidiaries and/or any entity in which any member of the Group holds any equity interest (the "Invested Entities"). The 2012 Scheme shall be valid and effective for a period of ten years commencing on 25 May 2012 and ending on 25 May 2022 (both dates inclusive).

Under the 2012 Scheme, the Board of Directors may, at its discretion, offer full-time or part-time employees, executives, officers or Directors (including executive and non-executive directors) of the Company or any of its subsidiaries or any of the Invested Entities, and any advisors, consultants, agents, suppliers, customers and distributors, who, in the sole opinion of the Board of Directors, will contribute or have contributed to the Company and/or any of its subsidiaries and/or any of the Invested Entities, share options to subscribe for shares of the Company.

38. SHARE OPTION SCHEMES (continued)

The maximum number of shares of the Company available for issue upon exercise of all share options which may be granted under the 2012 Scheme is 115,219,246, representing 4.31% of the issued share capital of the Company at the commencement date of the 2012 Scheme. The total number of shares of the Company issued and which may fall to be issued upon the exercise of share options to be granted under the 2012 Scheme and any other share option scheme(s) of the Company (including exercised, cancelled and outstanding share options) to each grantee in any 12-month period up to the date of grant shall not exceed 1% of the issued share capital of the Company as at the date of grant. Any further grant of share options in excess of this 1% limit shall be subject to the issue of a circular by the Company and shareholders' approval in a general meeting.

In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associates, which would result in the shares of the Company issued and to be issued upon exercise of all options already granted and to be granted (including options exercised, cancelled and outstanding) to such person in the 12-month period up to and including the date of the offer of such grant (a) representing in aggregate over 0.1% of the shares of the Company in issue on the date of the grant; and (b) having an aggregate value of in excess of HK$5 million (based on the closing price of the Company's shares as stated in the daily quotations sheet of the Stock Exchange on the date of each grant), such further grant of options shall be subject to the issue of a circular by the Company and shareholders' approval in a general meeting on a poll at which the grantee, his/her associates and all core connected persons of the Company shall abstain from voting in favour of the resolution concerning the grant of such options, and/or such other requirements prescribed under the Listing Rules from time to time. A connected person of the Company will be permitted to vote against the grant only if his intention to do so has been stated in the circular. Any grant of share options to a director, chief executive or substantial shareholder of the Company, or to any of their associates, is required to be approved by the independent non-executive directors (excluding the independent non-executive director who is the grantee of the options).

The period during which a share option may be exercised will be determined by the Board of Directors at its absolute discretion, save that no share option may be exercised more than ten years after it has been granted under the 2012 Scheme. There is no requirement that a share option must be held for any minimum period before it can be exercised but the Board of Directors is empowered to impose at its discretion any such minimum period at the time of offer of any share options.

38. SHARE OPTION SCHEMES (continued)

The exercise price in relation to each share option will be determined by the Board of Directors at its absolute discretion and shall not be less than the highest of (i) the closing price of the shares of the Company as stated in the daily quotation sheet of the Stock Exchange on the date of offer of share options; (ii) the average closing price of the shares of the Company as stated in the daily quotation sheets of the Stock Exchange for the five business days immediately preceding the date of offer of share options; and (iii) the nominal value of the share of the Company on the date of offer of share options. Each grantee is required to pay HK$1.00 as a consideration for his acceptance of the grant of share options in accordance with the 2012 Scheme. The offer of share options must be accepted within 30 days from the date of the offer.

Share options to be granted under the 2012 Scheme do not confer rights on the holders to dividends or to vote at general meetings.

No share option has been granted under the 2012 Scheme.

The following table discloses the details of the share options and movements in the share options under the 2002 Scheme during the years ended 31 December 2018 and 2017:

For the year ended 31 December 2018

				Number of share options			
Category of grantees	Date of grant	Exercise period	Exercise price per share	At 1.1.2018	Lapsed during the year	Adjustment as a result of the rights issue	At 31.12.2018
Directors of the Company	22.1.2008	22.1.2008 – 21.1.2018	HK$0.724	17,450,000	(17,450,000)[1]	–	–
Employees of the Group	14.12.2010	14.12.2010 – 13.12.2020	HK$0.530[4]	4,220,000	(700,000)[2]	66,880[4]	3,586,880
Other participants	22.1.2008	22.1.2008 – 21.1.2018	HK$0.724	18,500,000	(18,500,000)[1]	–	–
	14.12.2010	14.12.2010 – 13.12.2020	HK$0.540	600,000	(600,000)[3]	–	–
Total				40,770,000	(37,250,000)	66,880	3,586,880
Exercisable at year end							3,586,880
Weighted average exercise price				0.70	0.72	0.53	0.53

38. SHARE OPTION SCHEMES (continued)

For the year ended 31 December 2017

				Number of share options		
Category of grantees	Date of grant	Exercise period	Exercise price per share	At 1.1.2017	Lapsed during the year	At 31.12.2017
Directors of the Company	19.1.2007	19.1.2007 – 18.1.2017	HK$0.410	28,964,000	(28,964,000)[5]	–
	22.1.2008	22.1.2008 – 21.1.2018	HK$0.724	23,450,000	(6,000,000)[6]	17,450,000
	14.12.2010	14.12.2010 – 13.12.2020	HK$0.540	20,000,000	(20,000,000)[7]	–
Employees of the Group	19.1.2007	19.1.2007 – 18.1.2017	HK$0.410	1,900,000	(1,900,000)[5]	–
	14.12.2010	14.12.2010 – 13.12.2020	HK$0.540	4,220,000	–	4,220,000
Other participants	19.1.2007	19.1.2007 – 18.1.2017	HK$0.410	34,104,000	(34,104,000)[5]	–
	22.1.2008	22.1.2008 – 21.1.2018	HK$0.724	18,500,000	–	18,500,000
	14.12.2010	14.12.2010 – 13.12.2020	HK$0.540	600,000	–	600,000
Total				131,738,000	(90,968,000)	40,770,000
Exercisable at year end						40,770,000
Weighted average exercise price				0.53	0.46	0.70

Notes:

(1) The share options were held by grantees with exercise period from 22 January 2008 to 21 January 2018. Such share options lapsed on 22 January 2018 according to the terms of the 2002 Scheme.

(2) The share options were held by a grantee who resigned as employee of the Group on 1 June 2018 and lapsed on 1 July 2018 according to the terms of the 2002 Scheme.

(3) The share options were held by a grantee who ceased to be other participants on 12 April 2018 and lapsed on 12 May 2018 according to the terms of the 2002 Scheme.

(4) As a result of the Rights Issue which was completed on 31 October 2018, the relevant exercise prices were adjusted from HK$0.54 to HK$0.53 under the 2002 Scheme and the numbers of outstanding share options were adjusted accordingly.

(5) The share options were held by grantees with exercise period from 19 January 2007 to 18 January 2017. Such share options lapsed on 19 January 2017 according to the terms of the 2002 Scheme.

(6) The share options were held by a grantee who resigned as a director of the Company on 14 June 2017 and lapsed on 14 July 2017 according to the terms of the 2002 Scheme.

(7) The share options were held by grantees who resigned as directors of the Company on 1 January 2017 and 14 June 2017, respectively, and lapsed on 1 February 2017 and 14 July 2017, respectively, according to the terms of the 2002 Scheme.

No share options were granted and exercised during both years.

39. RETIREMENT BENEFIT SCHEMES

The Group contributes to the Mandatory Provident Fund Scheme which is available to all employees in Hong Kong. The assets of the scheme are held separately from those of the Group in independently administered funds.

Pursuant to the relevant regulations of the government in Mainland China, the subsidiaries in Mainland China participate in the municipal government contribution scheme whereby the subsidiaries are required to contribute to the scheme for the retirement benefit of eligible employees. The municipal government is responsible for the entire benefit obligations payable to the retired employees. The only obligation of the Group with respect to the scheme is to pay the ongoing contributions required by the scheme.

The retirement benefit costs represent gross contributions paid and payable by the Group to the schemes operated in Hong Kong and Mainland China (collectively the "Retirement Schemes"). There was no contributions payable to the Retirement Schemes at 31 December 2018 and 2017 and no forfeited contribution throughout both years.

40. ACQUISITION OF A SUBSIDIARY

On 15 November 2018, the Group acquired 86.71% of the issued share capital of Shouhua Jingxi Cooperative Innovation for consideration of HK$1,763,000. This acquisition has been accounted for using the purchase method. The amount of goodwill arising as a result of the acquisition was HK$921,000. Shouhua Jingxi Cooperative Innovation is engaged in provision of referral and corporate financial advisory services. Shouhua Jingxi Cooperative Innovation was acquired so as to continue the expansion of the Group's assets management division.

Consideration transferred

	HK$'000
Cash	1,763

Acquisition-related costs amounting to HK$47,000 have been excluded from the consideration transferred and have been recognised as an expense in the current year, within the administrative expenses item in the consolidated statement of profit or loss and other comprehensive income.

40. ACQUISITION OF A SUBSIDIARY (continued)

Assets acquired and liabilities recognised at the date of acquisition are as follows:

	HK$'000
Property, plant and equipment	6
Interest in an associate	1,573
Other receivables	335
Bank balances and cash	1,763
Other payables	(2,706)
Total identifiable net assets acquired	971

Goodwill arising on acquisition:

	HK$'000
Consideration transferred	1,763
Add: non-controlling interests (13.29% in Shouhua Jingxi Cooperative Innovation)	129
Less: fair value of identifiable net assets acquired	971
Goodwill arising on acquisition	921

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

None of the goodwill arising on these acquisitions is expected to be deductible for tax purposes.

40. ACQUISITION OF A SUBSIDIARY (continued)

Net cash inflow on acquisition of Shouhua Jingxi Cooperative Innovation

	HK$'000
Cash consideration paid	1,763
Less: cash and cash equivalent balances acquired	(1,763)
	–

Included in the loss for the year is loss of HK$432,000 attributable to Shouhua Jingxi Cooperative Innovation. No revenue for the year ended 31 December 2018 was generated from Shouhua Jingxi Cooperative Innovation.

Had the acquisition been completed on 1 January 2018, total group revenue for the year would have remained the same, and loss for the year would have been HK$51,202,000. The pro forma information is for illustrative purposes only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2018, nor is it intended to be a projection of future results.

41. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders, to support the Group's stability and growth, and to strengthen the Group's financial management capability. The Group's overall strategy remains unchanged from the prior year.

The capital structure of the Group consists of net debt, which includes secured bank borrowings disclosed in Note 33, net of restricted bank deposits, structured deposit, bank balances and cash, and total equity.

41. CAPITAL RISK MANAGEMENT (continued)

The Directors review the capital structure regularly and manage its capital structure to ensure an optimal capital structure and shareholders' returns, taking into consideration the future capital requirements of the Group, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. The Directors monitor capital mainly using net debt to total equity ratio and current ratio. These ratios as at 31 December 2018 and 2017 were as follows:

	2018	2017
	HK$'000	HK$'000
Net debt[(1)]	**N/A**	576,414
Total equity[(2)]	**1,626,090**	1,579,457
Net debt to total equity ratio (%)	**N/A**	36
Current assets	**1,436,525**	1,188,906
Current liabilities	**321,466**	647,820
Current ratio (%)	**447**	184

The Directors considered that the Group maintained healthy capital as at 31 December 2018 as the Group has excess of current assets over current liabilities.

Notes:

(1) Net debt equals secured bank borrowings less restricted bank deposits, structured deposit and bank balances and cash.

(2) Total equity equals to all capital and reserves of the Group including non-controlling interests.

42. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2018 HK$'000	2017 HK$'000
Financial assets		
Financial assets at FVTPL		
Mandatorily measured at FVTPL/ Held-for-trading	**2,371**	3,923
Structured deposit	**–**	12,048
	2,371	15,971
Loan and receivables (including cash and cash equivalents)	**–**	310,599
Financial assets at amortised cost	**808,503**	–
Finance lease receivables	**1,048,143**	1,886,829
Entrusted loan payment receivable	**8,349**	–
Equity instrument at FVTOCI	**11,558**	–
Debt instruments at FVTOCI	**69,870**	–
Financial liabilities		
Amortised cost	**547,590**	997,300

(b) Financial risk management objectives and policies

The Group's financial instruments include finance lease and entrusted loan receivables, equity instrument at FVTOCI, other receivables, financial assets at FVTPL, debt instruments at FVTOCI, structured deposit, restricted bank deposits, bank balances and cash, secured bank borrowings, other payables, security deposits received and other deposits received. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

42. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Market risk

(i) Currency risk

The normal operations and investments of the Group are mainly in Hong Kong and Mainland China, with revenue and expenditure denominated in HK$ and Renminbi which are primarily transacted using functional currencies of the respective group entities.

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

	Liabilities		Assets	
	2018	2017	**2018**	2017
	HK$'000	HK$'000	**HK$'000**	HK$'000
HK$ denominated secured bank borrowings	**–**	31,273	**–**	–
HK$ denominated bank balances and cash	**–**	–	**–**	3,109

The Group will consider using forward exchange contracts to hedge against foreign currency exposures if necessary.

42. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

***Market risk** (continued)*

(i) Currency risk (continued)

Sensitivity analysis

The Group is mainly exposed to the HK$ denominated secured bank borrowings and HK$ denominated bank balances and cash.

The following table details the Group's sensitivity to a 5% (2017: 5%) increase and decrease in HK$ against Renminbi. 5% (2017: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the end of the reporting period for a 5% (2017: 5%) change in foreign currency rates. The sensitivity analysis includes secured bank borrowings and bank balances and cash, denominated in a currency other than the functional currency of the respective group entity. A positive number below indicates an increase in pre-tax loss where Renminbi strengthen 5% (2017: 5%) against HK$. For a 5% (2017: 5%) weakening of Renminbi against HK$, there would be an equal and opposite impact on the loss and the balances below would be negative.

	2018	2017
	HK$'000	HK$'000
(Loss) profit before taxation	**–**	(1,408)

42. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

***Market risk** (continued)*

(ii) Interest rate risk

The Group is exposed to cash flow interest rate risk due to the fluctuation of market interest rate on variable-rate finance lease receivables as disclosed in Note 21, bank balances and restricted bank deposits as disclosed in Note 28 and secured variable-rate bank borrowings as disclosed in Note 33. It is the Group's policy to keep majority of its finance lease receivables and bank borrowings at floating rates of interest so as to minimise the fair value interest rate risk.

The Group is also exposed to fair value interest rate risk in relation to fixed-rate finance lease receivables and bank borrowings.

The Group's cash flow interest rate risk is mainly concentrated on the fluctuations of Hong Kong banks' prime rate, PBC rate, HIBOR and CNH HIBOR arising from secured bank borrowings and the fluctuations of PBC rate and CNH HIBOR arising from variable-rate finance lease receivables. The Group currently does not use any derivative contracts to hedge its exposure to interest rate risk. However, the management will consider hedging significant interest rate exposure should the need arise.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to interest rates for variable-rate finance lease receivables and secured bank borrowings at the end of reporting period. The analysis is prepared assuming these outstanding balances at the end of the reporting period were outstanding for the whole year. A 50 basis points (2017: 50 basis points) increase or decrease which represents management's assessment of the reasonably possible change in interest rates is used.

If interest rates had been 50 basis points (2017: 50 basis points) higher/lower and all other variables were held constant, the Group's pre-tax loss for the year ended 31 December 2018 would decrease/increase by approximately HK$19,000 (2017: pre-tax profit would increase/decrease by approximately HK$1,021,000).

The Group's exposure to interest rate risk for bank balances and restricted bank deposits is not included in the above analysis as the management considers that such exposure is insignificant.

42. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

***Market risk** (continued)*

(iii) Other price risk

The Group is exposed to equity price risk through its investments in listed equity securities. The management manages this exposure by maintaining a portfolio of investments with different risks. The Group's equity price risk is mainly concentrated on equity instruments of entities operating in Mainland China which are quoted in stock exchanges in Mainland China and Hong Kong. The Group currently does not use any derivative contracts to hedge its exposure to other price risk. However, the management has appointed a team to monitor the price risk and will consider hedging the risk exposure should that needs arise.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to equity price risks at the end of the reporting period.

If the prices of the respective equity instruments had been 10% (2017: 10%) higher/lower, pre-tax loss for the year ended 31 December 2018 would decrease/increase by HK$237,000 (2017: pre-tax profit would increase/decrease by HK$392,000) as a result of the changes in fair value of financial assets at fair value through profit or loss.

The Group's exposure to other price risk for debt instruments at FVTOCI, equity instrument at FVTOCI and structured deposit is not included in the above analysis as the management considers that such exposure is insignificant.

42. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

Credit risk and impairment assessment

As at 31 December 2018 and 2017, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties arises from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual finance lease receivables at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In addition, the Group performs impairment assessment under ECL model upon application of HKFRS 9 (2017: incurred loss model) on finance lease receivables individually. In this regard, the Directors consider that the Group's credit risk is significantly reduced. The management of the Group estimates the amount of 12m ECL and lifetime ECL of finance lease receivables and credit impaired finance lease receivables based on individual assessment of each finance lease borrower, after considering internal credit ratings based on available information at each reporting date for its finance lease receivables. Estimated loss rates are based on internal credit ratings with reference to estimated loss rates assigned by international credit-rating agencies. The impairment loss recognised or reversed is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows with the consideration of expected future credit losses of the respective financial instrument.

Before accepting any new finance lease and entrusted loan borrowers, the Group would assess the credit quality of each potential finance lease and entrusted loan borrower and define limits for each finance lease and entrusted loan borrower. The Group also demands certain finance lease borrowers to place security deposits and/or pledge assets with the Group at the time the finance lease arrangement is entered into. In addition, the Group would also review the repayment history of finance lease and entrusted loan payments for each finance lease and entrusted loan borrower with reference to the repayment schedule from the date of finance lease and entrusted loan was initially granted up to the reporting date to determine the recoverability of a finance lease receivables and entrusted loan payment receivable. Furthermore, the Group would assess and review the fair value of the pledged assets continuously to ensure the value of the relevant collateral could well cover the finance lease amount granted to the customers and any outstanding finance lease receivables.

42. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

***Credit risk and impairment assessment** (continued)*

The credit risk on restricted bank deposits, structured deposit and bank balances are limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

The Group only invests in debt securities with low credit risk. The Group's debt instruments at FVTOCI mainly comprise listed bonds that are graded in the top investment grade as per globally understood definitions and therefore are considered to be low credit risk investments. During the year ended 31 December 2018, expected credit losses on debt instruments at FVTOCI amounted to HK$120,000 was recognised in the profit or loss.

The Group's concentration of credit risk by geographical locations is mainly in Mainland China, which accounted for 99% (2017: 100%) of the finance lease receivables and entrusted loan payment receivable as at 31 December 2018 and 2017.

The Group's concentration of credit risk by related parties accounted for 61% (2017: 48%) of the finance lease receivables as at 31 December 2018 and 2017.

The Group also has concentration of credit risk from finance leasing and other financial services business as 33% (2017: 26%) and 93% (2017: 95%) of the total finance lease receivables was due from the Group's largest finance lease borrower and the five largest finance lease borrowers. The Group's five largest finance lease borrowers are spread across diverse industries such as airline and manufacturing industries. Of the five largest finance leases, one (2017: one) of them is listed company in Mainland China. Over 99% (2017: 99%) of balance of the finance lease customers have good repayment history with no record of late payment. For those finance lease customers with late payment, the management of the Group has delegated a team to monitor the level of exposure to ensure that follow up actions and/or corrective actions and/or legal actions are taken promptly to lower the risk exposure or to recover the overdue balances. Furthermore, the Group would negotiate with certain finance lease borrowers with late payment by means of debt restructuring, to recover the overdue debts by instalments.

42. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

***Credit risk and impairment assessment** (continued)*

As part of the Group's credit risk management, the Group regularly monitors the internal credit rating based on available information at each reporting date for its finance lease and entrusted loan payment receivables. The following table provides information about the exposure to credit risk and ECL for finance lease and entrusted loan payment receivables as at 31 December 2018.

Finance lease receivables and entrusted loan payment receivable

Internal credit rating	12-month or lifetime ECL	Average loss rate	Gross carrying amount HK$'000	Impairment loss allowance HK$'000
A3 to Aaa	12m ECL	0.08%	677,456	493
B3 to Baa1	12m ECL	2.52%	344,559	8,683
Caa3 to Caa1	Lifetime ECL (not credit-impaired)	4.44%	33,830	1,502
			1,055,845	10,678
Credit impaired			81,797	70,472
			1,137,642	81,150

Debt instruments at FVTOCI

Internal credit rating	12-month or lifetime ECL	Average loss rate	Gross carrying amount HK$'000	Impairment loss allowance HK$'000
B3 to Baa1	12m ECL	0.16%	69,990	120

42. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

***Credit risk and impairment assessment** (continued)*

The following tables show reconciliation of loss allowances that has been recognised for finance lease receivables and entrusted loan payment receivable:

	12 month ECL		Lifetime ECL		
	A3 to Aaa	B3 to Baa1	(non-credit impaired)	Credit-impaired	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Balance at 1 January 2018*	1,038	9,461	2,266	97,315	110,080
Impairment losses reversed	(487)	(240)	(635)	–	(1,362)
Write-off of impairment losses previously recognised	–	–	–	(21,313)	(21,313)
Exchange realignment	(58)	(538)	(129)	(5,530)	(6,255)
Balance at 31 December 2018	493	8,683	1,502	70,472	81,150

* The Group initially applied HKFRS 9 at 1 January 2018. Under the transition method chosen, comparative information is not restated.

The Group writes off a finance lease receivables when there is information indicating that the finance lease borrower is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the finance lease borrower has been placed under liquidation or has entered into bankruptcy proceedings, whichever occurs earlier.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of bank borrowings and ensures compliance with loan covenants.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest dates on which the Group can be required to pay. Specifically, bank borrowings with a repayment on demand clause are included in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates. The table includes both interest and principal cash flows. To the extent that interest flows are floating rates, the undiscounted amount is derived from weighted average interest rate at the end of reporting period.

42. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

***Liquidity risk** (continued)*

Liquidity table

	Weighted average interest rate %	On demand or less than 1 month HK$'000	1 – 3 months HK$'000	3 months to 1 year HK$'000	1 – 5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31.12.2018 HK$'000
Non-derivative financial liabilities							
Other payables	–	5,249	–	111	–	5,360	5,360
Security deposits received	–	11,325	–	22,159	14,205	47,689	47,689
Secured bank borrowings	4.99	155,688	2,835	96,923	281,199	536,645	494,541
		172,262	2,835	119,193	295,404	589,694	547,590

	Weighted average interest rate %	On demand or less than 1 month HK$'000	1 – 3 months HK$'000	3 months to 1 year HK$'000	1 – 5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31.12.2017 HK$'000
Non-derivative financial liabilities							
Other payables	–	7,817	–	174	–	7,991	7,991
Security deposits received	–	12,093	12,048	30,120	38,554	92,815	92,815
Secured bank borrowings	4.07	34,336	30,009	504,103	398,404	966,852	896,494
		54,246	42,057	534,397	436,958	1,067,658	997,300

42. FINANCIAL INSTRUMENTS (continued)

(b) Financial risk management objectives and policies (continued)

***Liquidity risk** (continued)*

Liquidity table (continued)

Bank borrowings with a repayment on demand clause are included in the "on demand or less than 1 month" time band in the above maturity analysis. As at 31 December 2018 and 31 December 2017, the aggregate principal amounts of these bank borrowings amounted to HK$153,632,000 and HK$31,273,000 respectively. Taking into account the Group's financial position, the Directors do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The Directors believe that these bank borrowings will be repaid in accordance with the scheduled repayment dates set out in the loan agreements.

The following table details the Group's aggregate principal and interest cash outflows for bank borrowings (with a repayment on demand clause) based on scheduled repayments. To the extent that interest flows are floating rate, the undiscounted amount is derived from weighted average interest rate at the end of reporting period.

	Weighted average interest rate %	On demand or less than 1 month HK$'000	1 – 3 months HK$'000	3 months to 1 year HK$'000	1 – 5 years HK$'000	Over 5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount HK$'000
Secured bank borrowings with repayment on demand clause								
As at 31.12.2018	4.74	70,984	1,984	77,572	12,239	–	162,779	153,632
As at 31.12.2017	2.35	384	778	3,482	18,787	10,777	34,208	31,273

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

(c) Fair value measurements of financial instruments

This note provides information about how the Group determines fair values of various financial assets.

42. FINANCIAL INSTRUMENTS (continued)

(c) Fair value measurements of financial instruments (continued)

Some of the Group's assets are measured at fair value for financial reporting purposes.

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the management establishes the appropriate valuation techniques and inputs for fair value measurement.

The Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain types of financial instruments.

Fair value of the Group's financial assets that are measured at fair value on a recurring basis

Some of the Group's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation technique and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

Financial assets	Fair value as at 31 December 2018	Fair value as at 31 December 2017	Fair value hierarchy	Valuation technique and key inputs	Relationship of unobservable inputs to fair value
Financial assets at FVTPL	Listed equity securities: – in Hong Kong: HK$2,371,000	Listed equity securities: – in Hong Kong: HK$3,095,000 – in Mainland China: HK$828,000	Level 1	Quoted bid prices in an active market	N/A
Debt instruments at FVTOCI	Listed bonds: – in Hong Kong: HK$69,870,000	–	Level 1	Quoted bid prices in an active market	N/A
Equity instrument at FVTOCI	Unlisted equity investment: – in the PRC: HK$11,558,000	–	Level 3	Income approach. The discounted cash flow method was used to capture future economic benefits to be derived from the ownership of these investments. Key unobservable inputs: expected yield of 3.5% and cash flows	The higher the expected yield, the higher the fair value The higher the expected cash flows, the higher the fair value
Structured deposit	–	Bank deposit in Mainland China with non-closely related embedded derivatives: HK$12,048,000	Level 3	Income approach. The discounted cash flow method was used to capture future economic benefits to be derived from the ownership of these investments. Key unobservable inputs: expected yield of 3.5% (2017: 3.5%) and market price of the underlying money market instruments and debt instruments invested by bank and a discount rate that reflects the credit risk of the bank (Note)	The higher the expected yield, the higher the fair value The higher the discount rate, the lower the fair value

Note: The Directors consider that the impact of the fluctuation in expected yields of the money market instruments and debt instruments to the fair value of the structured deposit is insignificant as the structured deposit has short maturities, and therefore no sensitivity analysis is presented.

42. FINANCIAL INSTRUMENTS (continued)

(c) Fair value measurements of financial instruments (continued)

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

No material gains or losses are recognised in profit or loss or other comprehensive income relating to the change in fair value of structured deposit and equity instrument at FVTOCI, classified as Level 3 in the current year, and therefore no reconciliation of Level 3 fair value measurements is presented.

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

The Directors consider that the carrying amounts of financial assets and financial liabilities stated at amortised cost in the consolidated financial statements approximate their fair values.

43. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

	Borrowings
	HK$'000
At 1 January 2017	928,468
Financing cash flows	(111,460)
Amortisation of loan raising costs as effective interest expense	2,777
Foreign exchange translation	76,709
At 31 December 2017	896,494
Financing cash flows	(350,590)
Amortisation of loan raising costs as effective interest expense	2,203
Foreign exchange translation	(53,566)
At 31 December 2018	494,541

44. RELATED PARTY DISCLOSURES

The Controlling Shareholder of the Company defined under the Listing Rules is Shougang Holding which is a wholly-owned subsidiary of Shougang Group Co., Ltd., a state-owned enterprise under the direct supervision of the State Council of the PRC. Accordingly, the Company and the Group are controlled by Shougang Group Co., Ltd. and its subsidiaries (collectively referred as "Shougang Group"). Except for the transactions with related parties as disclosed in Notes 24 and 46, the transactions and those balances with Shougang Group and other PRC government-related financial institutions are disclosed below:

(a) Transactions and balances with Shougang Group and related parties

	Rental income (Note i)		Finance income and other financial services income (Note ii)		Consultancy fee expense (Note i)		Management fee expense (Note i)		Rental expenses (Note i)	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Shougang Holding	**–**	–	**–**	–	**800**	960	**480**	–	**–**	–
Subsidiaries of Shougang Group	**–**	–	**63,853**	91,087	**–**	–	**–**	–	**391**	–
Associates of Shougang Holding	**–**	–	**2,543**	3,800	**–**	–	**236**	840	**–**	–
Mr. Li Shaofeng, the former Chairman of the Company (Note)	**–**	64	**–**	–	**–**	–	**–**	–	**–**	–

Note:

Mr. Li Shaofeng has resigned as an executive director of the Company and the Chairman of the Board with effect from 14 June 2017 and the amount presented was for the period up to this date.

44. RELATED PARTY DISCLOSURES (continued)

(a) Transactions and balances with Shougang Group and related parties (continued)

Notes:

(i) The transactions were carried out in accordance with the relevant lease and other agreements. The relevant rental deposit is included in prepayments, deposits and other receivables (Note 25).

(ii) The transactions were carried out in accordance with relevant finance lease and loan agreements summarised as below:

(1) The Company entered into the master loan facility agreement with Shougang Shuicheng Gangtie (Group) Co., Ltd ("Shougang Shuigang"), a subsidiary of Shougang Group Co., Ltd., pursuant to which the Company agreed to provide, or procure its subsidiaries to provide, the loan facilities to Shougang Shuigang and/or its subsidiaries in an aggregate principal amount of up to HK$250,000,000 for a term of 3 years commenced from October 2014. The master loan facility agreement with Shougang Shuigang was terminated in June 2017.

(2) Pursuant to the finance lease agreement, South China Leasing, an indirect non-wholly-owned subsidiary of the Company, would provide finance lease amounting RMB200,000,000 to Shougang Guiyang Special Steel Co., Ltd, a subsidiary of Shougang Group Co., Ltd., for a term of 3 years commenced from February 2015.

(3) The Company entered into the master facility agreement with Shougang Group Co., Ltd., pursuant to which the Company has conditionally agreed to provide or procure its subsidiaries to provide the facilities to Shougang Group Co., Ltd. and/or its subsidiaries in an aggregate principal amount of up to RMB8,000,000,000 for a term of 3 years commenced from June 2015.

(4) Pursuant to the finance lease agreement, South China Leasing will provide finance lease amounting to RMB70,000,000 to Tengzhou Eastern Steel Cord Co. Ltd, an associate of Shougang Holding, for a term of 3 years commenced from August 2016.

(5) The Company entered into the master facility agreement with Shougang Group Co., Ltd., pursuant to which the Company has conditionally agreed to provide or procure its subsidiaries to provide the facilities to Shougang Group Co., Ltd. and/or its subsidiaries in an aggregate principal amount of up to RMB5,000,000,000 for a term of 3 years commenced from June 2018.

(6) Pursuant to the finance lease agreement, South China Leasing will provide finance lease amounting RMB60,000,000 to 成都首中易泊停車場管理有限公司, a subsidiary of Shougang Holding, for a term of 1 year commenced from February 2018.

Included in the finance lease receivables of the Group as disclosed in Note 21 are finance lease receivables from subsidiaries of Shougang Group and an associate of Shougang Holding with total carrying amount of HK$641,510,000 (2017: HK$1,366,725,000) and HK$21,203,000 (2017: HK$51,242,000), respectively, which utilised the above facilities.

44. RELATED PARTY DISCLOSURES (continued)

(b) Investments in related companies

At 31 December 2018, the Group's financial assets at FVTPL included listed securities of 12,370,000 shares (2017: 12,370,000 shares) of Shougang Concord Century Holdings Limited ("Shougang Century") with carrying amount of HK$2,326,000 (2017: HK$3,043,000), and 230,000 shares (2017: 230,000 shares) of Shougang Concord International Enterprises Company Limited ("Shougang International") with carrying amount of HK$45,000 (2017: HK$52,000). Shougang Century and Shougang International are associates of Shougang Holding.

(c) Transactions and balances with other PRC government-related entities

Apart from the transactions and balances with the Shougang Group as disclosed in Note 44(a), and the investments in related companies as disclosed in Note 44(b), the Group has entered into various transactions in its ordinary course of business including deposit placements, borrowings and other general banking facilities, with certain banks and financial institutions which are government-related entities. As at 31 December 2018, Nil, Nil, 96% and 97% (2017: 100%, 100%, 99% and 97%), respectively, of structured deposit, restricted bank deposits, bank balances and bank borrowings are held with these government-related financial institutions.

(d) Compensation of key management personnel

The remuneration of the Directors and other members of key management for both years are as follows:

	2018 **HK$'000**	2017 HK$'000
Short-term benefits	**5,911**	7,202
Post-employment benefit	**36**	141
	5,947	7,343

The remuneration of the Directors and key executives is determined by the remuneration committee having regard to the performance of individuals and market trends.

45. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Details of principal subsidiaries at 31 December 2018 and 2017 are as follows:

Name of subsidiary	Place of incorporation or establishment/ operation	Issued and fully paid share capital/ registered and paid-up capital (Note (a))	Effective equity interest attributable to the Group 2018	2017	Principal activities
Direct subsidiary					
SCG Investment (BVI) Limited	British Virgin Islands ("BVI")	HK$100,000	**100%**	100%	Investment holding
Indirect subsidiaries					
Concord Grand TV & Movie Investment Limited	BVI	US$1	**100%**	100%	Investment holding
Dunley Developments Limited	BVI	US$1	**100%**	100%	Investment holding
Durali Developments Limited	BVI	US$1	**100%**	100%	Investment holding
Gold Cosmos	Hong Kong	HK$10,000	**100%**	100%	Investment holding
Grand Park Investment Limited	Hong Kong	HK$2	**100%**	100%	Property investment
Grand Phoenix Limited	BVI	US$1	**100%**	100%	Investment holding
Jeckman Holdings Limited	BVI	US$100	**100%**	100%	Investment holding
Linksky Limited	Hong Kong	HK$2	**100%**	100%	Property investment
Long Cosmos Investment Limited	Hong Kong	HK$2	**100%**	100%	Provision of administrative and management services
Lyre Terrace Management Limited	Hong Kong	HK$1,000,000	**100%**	100%	Property investment
On Hing Investment Company, Limited ("On Hing")	Hong Kong	HK$1,000 (ordinary) HK$2,000,000 (non-voting deferred)	**100% (Note (d))**	100% (Note (d))	Property investment and investment holding

45. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (continued)

Name of subsidiary	Place of incorporation or establishment/ operation	Issued and fully paid share capital/ registered and paid-up capital (Note (a))	Effective equity interest attributable to the Group 2018	2017	Principal activities
Indirect subsidiaries (continued)					
SCG Capital Corporation Limited	Hong Kong	HK$20	**100%**	100%	Investment holding
SCG Finance Corporation Limited	Hong Kong	HK$20	**100%**	100%	Provision of financial services
SCG Financial Investment Limited	BVI	US$1,000	**100%**	100%	Investment holding
SCG Leasing Corporation Limited	Hong Kong	HK$2	**100%**	100%	Property investment
South China Leasing	PRC (Note (b))	US$162,000,000 (Registered capital)	**75%**	75%	Provision of finance leasing services
Strenbeech Limited	BVI	HK$147,000,008	**100%**	100%	Investment holding
Tin Fung Investment Company, Limited	Hong Kong	HK$975,000 (ordinary) HK$210,000 (non-voting deferred)	**100% (Note (d))**	100% (Note (d))	Inactive
Upper Nice Assets Ltd.	BVI	US$1	**100%**	100%	Investment holding
Valuework Investment Holdings Limited	BVI	US$100	**100%**	100%	Investment holding
悅康融滙投資咨詢(深圳)有限公司 Ecko Investment Company Limited*	PRC (Note (c))	HK$11,700,000 (Registered capital)	**100%**	100%	Investment holding
Shouhua Jingxi Cooperative Innovation	PRC (Note (c))	RMB70,000,000 (Registered capital)	**86.71%**	–	Provision of referral and corporate financial advisory services

* *For identification purpose only*

45. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (continued)

Notes:

(a) All issued share capital are ordinary shares unless otherwise stated.

(b) This entity is sino-foreign equity joint venture.

(c) These entities are limited liability enterprises.

(d) Interests only refer to ordinary shares which are voting shares.

The above table lists the subsidiaries of the Group which, in the opinion of the Directors, principally affect the results or assets and liabilities of the Group. To give details of other subsidiaries would, in the opinion of Directors, result in particulars of excessive length.

None of the subsidiaries had any debt securities subsisting at the end of the year or at any time during the year.

Details of non-wholly-owned subsidiary that has material non-controlling interests

The table below shows details of non-wholly-owned subsidiary of the Group that has material non-controlling interests:

Name of subsidiary	Place of establishment and operation	Principal activities	Proportion of ownership interests and voting rights held by non-controlling interests		Profit for the the year allocated to non-controlling interests		Accumulated non-controlling interests	
			2018	2017	**2018**	2017	**2018**	2017
			%	%	**HK$'000**	HK$'000	**HK$'000**	HK$'000
South China Leasing	PRC	Provision of finance leasing services	**25**	25	**8,833**	8,891	**285,984**	297,111
Individually immaterial subsidiaries with non-controlling interests							**418**	429
							286,402	297,540

South China Leasing is a private company established in Mainland China and provides finance leasing services in Mainland China.

45. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (continued)

Details of non-wholly-owned subsidiary that has material non-controlling interests (continued)

The Group has indirect ownership interest of 75% (2017: 75%) in South China Leasing at 31 December 2018, which is held by wholly owned subsidiaries of the Group. The remaining 25% non-controlling interest in South China Leasing is held by Shougang Holding. The Directors conclude that the Group has a sufficiently dominant voting interest to direct the relevant activities of South China Leasing on the basis of the Group's absolute size of equity interest and the relative size of the interest owned by the other equity owner.

Summarised financial information in respect of the Group's subsidiary that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

South China Leasing

	2018 HK$'000	2017 HK$'000
Current assets	**1,007,201**	1,143,854
Non-current assets	**606,044**	1,097,739
Current liabilities	**(198,651)**	(649,472)
Non-current liabilities	**(270,658)**	(403,677)
Equity attributable to owners of the Company	**857,952**	891,333
Non-controlling interests	**285,984**	297,111
Revenue	**94,965**	107,387
Increase (decrease) in fair value of investment properties	**236**	(463)
Impairment loss reversed on finance lease receivables	**1,362**	672
Other expenses	**(61,232)**	(72,031)
Profit for the year	**35,331**	35,565

45. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (continued)

South China Leasing (continued)

	2018	2017
	HK$'000	HK$'000
Profit for the year attributable to:		
Owners of the Company	**26,498**	26,674
Non-controlling interests	**8,833**	8,891
	35,331	35,565
Other comprehensive (expenses) income for the year attributable to:		
Owners of the Company	**(52,696)**	70,582
Non-controlling interests	**(17,566)**	23,527
	(70,262)	94,109
Total comprehensive (expenses) income for the year attributable to:		
Owners of the Company	**(26,198)**	97,256
Non-controlling interests	**(8,733)**	32,418
	(34,931)	129,674
Net cash inflow from operating activities	**728,857**	165,775
Net cash inflow from investing activities	**29,015**	11,583
Net cash outflow from financing activities	**(472,948)**	(119,030)
Net cash inflow	**284,924**	58,328

46. CAPITAL COMMITMENTS

	2018 **HK$'000**	2017 HK$'000
Capital expenditure contracted for but not provided in the consolidated financial statements in respect of First Acquisition as defined below and Capital Increase (Note 22)	**312,798**	–

On 13 June 2018, On Hing, a wholly-owned subsidiary of the Company, entered into an agreement with 北京服務新首鋼股權創業投資企業(有限合夥) (Beijing Services New Shougang Venture Capital Investment LLP*) ("Beijing Services New Shougang") and 京西商業保理有限公司 (Beijing West Business Factoring Company Limited*) ("Beijing West Business Factoring") pursuant to which On Hing agreed to purchase 41.41% of the equity interest in Beijing West Business Factoring from Beijing Services New Shougang for RMB75,262,646 ("First Acquisition"), subject to certain conditions precedent. On 31 December 2018, supplemental agreement was entered to extend the long stop date of the First Acquisition from 31 December 2018 to 31 May 2019. As at the date of approving the issuance of these consolidated financial statements, the First Acquisition is not yet completed since it is subject to the government approval. Details are set out in the Company's announcements dated 13 June 2018 and 31 December 2018.

Details of Capital Increase are set out in Note 22.

* *For identification purpose only*

47. EVENTS AFTER THE REPORTING PERIOD

The disposal of 40.78% equity interest in GDC was completed on 8 January 2019. The difference between the carrying amount of non-current asset classified as held for sale and the sales proceeds will be recognised in equity upon completion of the Disposal with Shougang Holding. Details of the Disposal with Shougang Holding are set out in Note 29.

48. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

	2018 HK$'000	2017 HK$'000
Non-current assets		
Investments in subsidiaries (Note)	**502,443**	353,385
Amount due from subsidiary (Note)	**513,889**	487,765
	1,016,332	841,150
Current assets		
Prepayment, deposits and other receivables	**194**	194
Bank balances and cash	**220**	79
	414	273
Current liabilities		
Other payables and accruals	**1,770**	102
Amounts due to subsidiaries	**–**	32,078
	1,770	32,180
Net current liabilities	**(1,356)**	(31,907)
Net assets	**1,014,976**	809,243
Capital and reserves		
Share capital	**40,083**	26,722
Reserves	**974,893**	782,521
Total equity	**1,014,976**	809,243

48. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (continued)

Note: As at 31 December 2018, the amount due from a subsidiary with carrying amount of HK$513,889,000 (2017: HK$487,765,000) and principal amount of HK$754,888,000 (2017: HK$564,648,000) is unsecured, interest free and repayable on demand. In the opinion of the Directors, the Company will not demand for repayment within one year from the end of reporting period and the amount due from a subsidiary is therefore considered as non-current. Such interest-free advance is measured at amortised cost and the related effective interest income of HK$26,124,000 (2017: HK$23,227,000), which is non-distributable, was recognised in profit or loss for the current year and accumulated effective interest income of approximately HK$71,472,000 (2017: HK$45,348,000), which is non-distributable, was recognised in retained earnings.

Movement in the Company's reserves

	Share premium	Contributed surplus reserve	Share options reserve	Retained earnings	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
At 1 January 2017	604,068	113,441	27,497	14,301	759,307
Lapse of share options	–	–	(17,243)	17,243	–
Profit for the year	–	–	–	23,214	23,214
At 31 December 2017	604,068	113,441	10,254	54,758	782,521
Issue of shares upon rights issue	166,160	–	–	–	166,160
Lapse of share options	–	–	(9,568)	9,568	–
Profit for the year	–	–	–	26,212	26,212
At 31 December 2018	**770,228**	**113,441**	**686**	**90,538**	**974,893**

FIVE-YEAR FINANCIAL SUMMARY

	For the year ended 31 December				
	2014 HK$'000 (restated)	2015 HK$'000 (restated)	2016 HK$'000	2017 HK$'000	**2018** **HK$'000**
RESULTS					
Continuing operations					
Revenue	48,616	60,276	106,578	109,512	**96,623**
Cost of sales	(23,992)	(32,962)	(61,130)	(50,380)	**(42,427)**
Gross profit	24,624	27,314	45,448	59,132	**54,196**
Other income	7,987	5,496	11,451	4,389	**15,620**
Distribution costs and selling expenses	(697)	(1,955)	(672)	(993)	**(418)**
Administrative expenses	(34,877)	(41,281)	(33,248)	(40,530)	**(58,798)**
Other gains	–	–	–	285	**2,824**
Impairment losses, net of reversal	–	(81,723)	(44,055)	672	**1,242**
Impairment loss (recognised) reversed on interest in an associate	–	–	(43,019)	(9,626)	**75,640**
Increase in fair value of investment properties	2,400	12,455	4,670	10,781	**3,147**
Changes in fair value of financial assets at fair value through profit or loss	635	(2,005)	806	67	**(641)**
Finance costs	(370)	(613)	(264)	(2,445)	**(5,823)**
Share of results of associates	12,994	4,483	(25,349)	(11,947)	**(122,547)**
Profit (loss) before tax	12,696	(77,829)	(84,232)	9,785	**(35,558)**
Income tax (expense) credit	(2,141)	11,619	2,564	(12,206)	**(14,531)**
Profit (loss) for the year from continuing operations	10,555	(66,210)	(81,668)	(2,421)	**(50,089)**
Discontinued operation					
Loss for the year from discontinued operation	(433)	(272)	(304)	–	**–**
Profit (loss) for the year	10,122	(66,482)	(81,972)	(2,421)	**(50,089)**
Attributable to:					
Owners of the Company	10,165	(55,244)	(82,375)	(11,332)	**(58,882)**
Non-controlling interests	(43)	(11,238)	403	8,911	**8,793**
	10,122	(66,482)	(81,972)	(2,421)	**(50,089)**

FIVE-YEAR FINANCIAL SUMMARY

	As at 31 December				
	2014	2015	2016	2017	**2018**
	HK$'000	HK$'000	HK$'000	HK$'000	**HK$'000**
ASSETS AND LIABILITIES					
Total assets	1,378,534	3,331,552	2,524,472	2,630,955	**2,218,214**
Total liabilities	(498,361)	(1,695,526)	(1,061,140)	(1,051,498)	**(592,124)**
	880,173	1,636,026	1,463,332	1,579,457	**1,626,090**
Equity attributable to owners of the Company	879,477	1,354,580	1,198,271	1,281,917	**1,339,688**
Non-controlling interests	696	281,446	265,061	297,540	**286,402**
	880,173	1,636,026	1,463,332	1,579,457	**1,626,090**