HONG KONG FERRY (HOLDINGS) COMPANY LIMITED
香 港 小 輪 (集 團) 有 限 公 司
(Stock Code: 50)

2018
ANNUAL REPORT

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TUEN MUN TOWN LOT NO. 547

The construction of the Group's 50%/50% joint venture project at Castle Peak Road, Castle Peak Bay, Area 48, Tuen Mun, New Territories has been in good progress.

The project under construction consists of six residential towers providing about 1,635 units with sea view or landscape view. The gross floor area of the project is about 663,000 square feet and is expected to be completed in 2022.

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors:

Dr. Lam Ko Yin, Colin *(Chairman)*
Mr. Li Ning

Non-executive Directors:

Mr. Au Siu Kee, Alexander
Mr. Lau Yum Chuen, Eddie
Dr. the Hon. Lee Shau Kee

Independent Non-executive Directors:

Mr. Ho Hau Chong, Norman
Ms. Wong Yu Pok, Marina
Mr. Wu King Cheong

AUDIT COMMITTEE

Mr. Ho Hau Chong, Norman *(Chairman)*
Ms. Wong Yu Pok, Marina
Mr. Wu King Cheong

REMUNERATION COMMITTEE

Mr. Wu King Cheong *(Chairman)*
Dr. Lam Ko Yin, Colin
Mr. Li Ning
Mr. Ho Hau Chong, Norman
Ms. Wong Yu Pok, Marina

NOMINATION COMMITTEE

Dr. Lam Ko Yin, Colin *(Chairman)*
Mr. Li Ning
Mr. Ho Hau Chong, Norman
Ms. Wong Yu Pok, Marina
Mr. Wu King Cheong

GROUP GENERAL MANAGER

Ir. Dr. Ho Chi Shing, David

COMPANY SECRETARY

Mr. Yuen Wai Kuen, Peter

AUDITOR

KPMG

PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
Bank of Communications Co., Ltd. Hong Kong Branch
DBS Bank (Hong Kong) Limited
Hang Seng Bank Limited
The Hongkong and Shanghai Banking Corporation Limited
OCBC Wing Hang Bank Limited
Mizuho Bank, Limited

REGISTERED OFFICE

98 Tam Kon Shan Road
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Ngau Kok Wan
North Tsing Yi
New Territories
Hong Kong

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E-Mail	:	hkferry@hkf.com

SHARE LISTING

The Stock Exchange of Hong Kong Limited
Stock Code: 50

SHARE REGISTRAR

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

DIRECTORS' AND SENIOR MANAGEMENT'S PROFILE

DIRECTORS' PROFILE

Dr. Lam Ko Yin, Colin, *SBS, FCILT, FHKIoD, DB(Hon)*, aged 67, was appointed on 1 July 1986, is the Chairman of the Company. Dr. Lam has over 45 years' experience in banking and property development. He is also a Vice Chairman of Henderson Land Development Company Limited ("Henderson Land") and Henderson Investment Limited, a non-executive director of The Hong Kong and China Gas Company Limited and an executive director of Miramar Hotel and Investment Company, Limited, all of which are listed public companies. He is also a director of Wiselin Investment Limited ("Wiselin"), Henderson Development Limited ("Henderson Development"), Graf Investment Limited ("Graf"), Mount Sherpa Limited ("Mount"), Paillard Investment Limited ("Paillard"), Hopkins (Cayman) Limited ("Hopkins"), Rimmer (Cayman) Limited ("Rimmer") and Riddick (Cayman) Limited ("Riddick"). Henderson Land, Wiselin, Henderson Development, Graf, Mount, Paillard, Hopkins, Rimmer and Riddick have discloseable interests in the Company under the provisions of Part XV of the Securities and Futures Ordinance. He was awarded the Silver Bauhinia Star (SBS) by the Government of the Hong Kong Special Administrative Region in 2017. Dr. Lam is the Deputy Chairman of The University of Hong Kong Foundation for Educational Development and Research and a Director of Fudan University Education Development Foundation. Dr. Lam was awarded an Honorary University Fellowship by The University of Hong Kong in 2008, and was conferred with a degree of Doctor of Business (Honoris Causa) by Macquarie University in 2015. Dr. Lam is a Fellow of The Chartered Institute of Logistics and Transport in Hong Kong and a Fellow of The Hong Kong Institute of Directors.

Dr. Lam Ko Yin, Colin
Chairman

Mr. Li Ning, *BSc, MBA*, aged 62, was appointed on 20 October 1989, is an Executive Director of the Company. Mr. Li is also an Executive Director of Henderson Investment Limited, a listed public company. He holds a B.Sc. degree from Babson College and an M.B.A. degree from the University of Southern California. He previously served as an Executive Director of Henderson Land Development Company Limited, a listed public company, until his retirement on 2 June 2015. Mr. Li is the son-in-law of Dr. Lee Shau Kee, a Non-executive Director of the Company.

Mr. Li Ning

Mr. Au Siu Kee, Alexander

Mr. Au Siu Kee, Alexander, *OBE, FCA, FCCA, FCPA, AAIA, FCIB, FHKIB*, aged 72, was appointed as an Independent Non-executive Director on 17 January 2005 and re-designated as a Non-executive Director of the Company on 7 November 2005. Mr. Au was a well-known banker in Hong Kong and had more than 32 years' experience in local and international banking business, having been the Chief Executive Officer of Hang Seng Bank Limited (from October 1993 to March 1998) and of Oversea-Chinese Banking Corporation Limited in Singapore (from September 1998 to April 2002). He was an executive director and the chief financial officer of Henderson Land Development Company Limited ("Henderson Land") from December 2005 to June 2011. He stepped down from the position of chief financial officer and was re-designated as a non-executive director of Henderson Land on 1 July 2011. On 18 December 2012, Mr. Au was re-designated as an independent non-executive director of Henderson Land until his retirement on 2 June 2015. In December 2018, Mr. Au rejoined Henderson Land as an independent non-executive director. Mr. Au previously served as an independent non-executive director of The Wharf (Holdings) Limited until 23 November 2017. Currently, he is an independent non-executive director of Henderson Investment Limited and Wharf Real Estate Investment Company Limited, and a non-executive director of Miramar Hotel and Investment Company, Limited, all of which are listed public companies. He is the chairman and a non-executive director of Henderson Sunlight Asset Management Limited, the manager of the publicly-listed Sunlight Real Estate Investment Trust. An accountant by training, Mr. Au is a Fellow of The Institute of Chartered Accountants in England and Wales, The Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. Henderson Land has discloseable interests in the Company under the provisions of Part XV of the Securities and Futures Ordinance.

Mr. Lau Yum Chuen, Eddie

Mr. Lau Yum Chuen, Eddie, aged 72, was appointed on 5 May 1988, is a Non-executive Director of the Company. He has over 45 years of experience in banking, finance and investment. Mr. Lau is also an Executive Director of Henderson Land Development Company Limited ("Henderson Land") and Miramar Hotel and Investment Company, Limited, both are listed public companies. Henderson Land has discloseable interests in the Company under the provisions of Part XV of the Securities and Futures Ordinance.

Dr. the Hon. Lee Shau Kee, *GBM, DBA(Hon), DSSc(Hon), LLD(Hon)*, aged 90, was appointed on 15 December 1981, is a Non-executive Director of the Company. He has been engaged in property development in Hong Kong for more than 60 years. He is the founder and the Chairman and Managing Director of Henderson Land Development Company Limited ("Henderson Land"), the Chairman of The Hong Kong and China Gas Company Limited, the Vice Chairman of Sun Hung Kai Properties Limited as well as a non-executive director of Miramar Hotel and Investment Company, Limited. He is the founder, and continues to act as an Executive Director of Henderson Investment Limited after his stepping down as the Chairman and Managing Director on 1 July 2015. All the above companies are listed public companies. Dr. Lee was awarded the Grand Bauhinia Medal (GBM) by the Government of the Hong Kong Special Administrative Region in 2007. He is a director of Pataca Enterprises Limited ("Pataca"), Wiselin Investment Limited ("Wiselin"), Henderson Development Limited ("Henderson Development"), Graf Investment Limited ("Graf"), Mount Sherpa Limited ("Mount"), Paillard Investment Limited ("Paillard"), Hopkins (Cayman) Limited ("Hopkins"), Rimmer (Cayman) Limited ("Rimmer") and Riddick (Cayman) Limited ("Riddick"). Henderson Land, Pataca, Wiselin, Henderson Development, Graf, Mount, Paillard, Hopkins, Rimmer and Riddick have discloseable interests in the Company under the provisions of Part XV of the Securities and Futures Ordinance. Dr. Lee is the father-in-law of Mr. Li Ning, an Executive Director of the Company.

Dr. the Hon. Lee Shau Kee

Mr. Ho Hau Chong, Norman, *BA, ACA, FCPA*, aged 63, was appointed on 28 March 1995, is an Independent Non-executive Director of the Company. Mr. Ho is a member of the Institute of Chartered Accountants in England and Wales and a Fellow of the Hong Kong Institute of Certified Public Accountants. Mr. Ho is an Executive Director of Honorway Investments Limited and Tak Hung (Holding) Company, Limited and has over 27 years of experience in management and property development. He is also a Director of Lee Hing Development Limited, Miramar Hotel and Investment Company, Limited, Vision Values Holdings Limited and Shun Tak Holdings Limited, all of which are listed public companies. He was previously a director of Taifook Securities Group Limited. Mr. Ho previously served as a director of CITIC Pacific Limited, until 12 May 2011 and an independent non-executive director of Starlight International Holdings Limited, until his retirement on 26 August 2013, both are listed public companies.

Mr. Ho Hau Chong, Norman

Ms. Wong Yu Pok, Marina

Ms. Wong Yu Pok, Marina, *JP*, aged 70, was appointed on 8 May 2008, is an Independent Non-executive Director of the Company. Ms. Wong joined PricewaterhouseCoopers in 1968 and was responsible for the development of the firm's business in Mainland China since 1980. After her retirement as a partner from PricewaterhouseCoopers in July 2004, she joined Tricor Services Limited as a director from September 2004 to February 2006. Ms. Wong is a member of a number of Government advisory and other bodies in Hong Kong, including The Dental Council of Hong Kong and was the Chairman of The Applied Research Council up to February 2017. Ms. Wong is the Vice-Chairman of the Hong Kong Federation of Women and a director of China Tibetan Children Health & Education Fund. An accountant by training, Ms. Wong is a Fellow of the Hong Kong Institute of Certified Public Accountants and a Fellow of the Association of Chartered Certified Accountants. She is also an Independent Non-Executive Director of Kerry Properties Limited, Luk Fook Holdings (International) Limited and Kerry Logistics Network Limited, all of which are listed public companies in Hong Kong. She ceased to act as an independent director of China World Trade Center Company Ltd. on 23 November 2016, a company listed on the Shanghai Stock Exchange.

Mr. Wu King Cheong

Mr. Wu King Cheong, *BBS, JP*, aged 68, was appointed as an Independent Non-executive Director of the Company on 17 January 2005. He is the Life Honorary Chairman of the Chinese General Chamber of Commerce, the Honorary Permanent President of the Chinese Gold & Silver Exchange Society and the Permanent Honorary President of the Hong Kong Securities Association Limited. Mr. Wu is currently an independent non-executive director of Henderson Land Development Company Limited ("Henderson Land"), Henderson Investment Limited, Miramar Hotel and Investment Company, Limited and Yau Lee Holdings Limited, all of which are listed public companies. Henderson Land has discloseable interests in the Company under the provisions of Part XV of the Securities and Futures Ordinance. Mr. Wu was awarded an Honorary Fellowship by Lingnan University in 2009.

SENIOR MANAGEMENT'S PROFILE

The Senior Management of the Company is as follows:

Ir. Dr. Ho Chi Shing, David	Group General Manager and General Manager – Ferry and Property Operations
Mr. Leung Shu Keung, Brian	Internal Audit Manager
Mr. Wong Kam Chuen, Terence	Deputy General Manager – Finance and Accounts
Mr. Yuen Wai Kuen, Peter	Company Secretary

Ir. Dr. Ho Chi Shing, David, *JP, DBA, FCILT, FHKIE, FCIM, FHKIoD, MPIA, MCIArb, MCIHT*, aged 62, joined the Company in 1981 and has been the Group General Manager since 1996. He has over 38 years of experience in ferry operations. Dr. Ho was appointed as a Justice of the Peace in 2013. He is presently a member of the Logistics Industry Training Advisory Committee, the Deputy Convener of Transportation & Logistics Industry Consultative Network of Employees Retraining Board, a Director of The Shipowners' Mutual Protection & Indemnity Association (Luxembourg), a Council Member of the Chartered Institute of Logistics and Transport in Hong Kong, the Chairman of Adventure-Ship, a board member of The Hong Kong Sea School, an Adjunct Professor at the College of Business of City University of Hong Kong and a member to the Review Committee of The Dental Council of Hong Kong. Dr. Ho has been extensively involved in works of the Vocational Training Council and was awarded VTC Honorary Fellow Award in 2007. He is currently the Chairman of the Transport and Logistics Training Board and the Chairman of Languages Discipline Advisory Board. Dr. Ho is also a General Committee Member and the Group 21 Chairman (Transport and Logistics Services Council) of the Federation of Hong Kong Industries.

Mr. Leung Shu Keung, Brian, *BA, CIA, CRMA, CFE, CBM, PgD*, aged 57, is the Internal Audit Manager of the Company. He joined the Company in 1992 and has over 29 years of experience in accounting, auditing and management assurance.

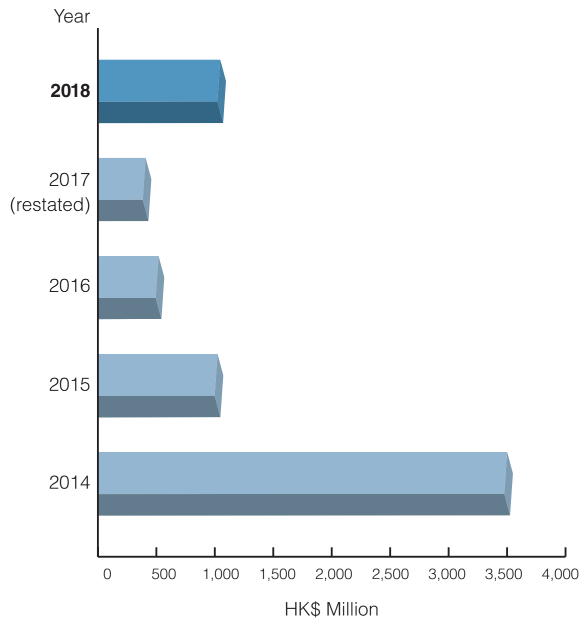
Mr. Wong Kam Chuen, Terence, *MCF, BA(Hons), FCCA, CPA, ACIS, ACS*, aged 50, has been the Deputy General Manager of Finance and Accounts Department of the Company since September 2013. He joined the Company in 1995 and has over 20 years of experience in accounting, auditing and corporate finance.

Mr. Yuen Wai Kuen, Peter, *BA(Hons), MBA, FCIS, FCS, FFA*, aged 60, has joined the Company in January 2005 and has been appointed Company Secretary of the Company on 1 April 2005. Mr. Yuen has over 20 years of experience in company secretarial, corporate advisory and general management.

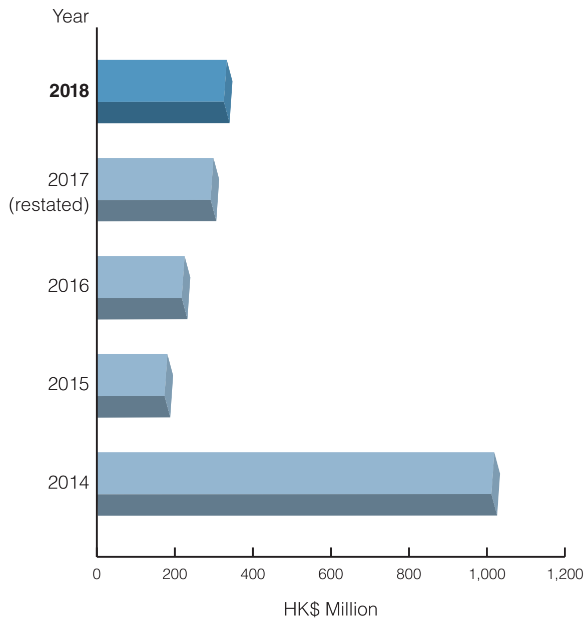
FINANCIAL HIGHLIGHTS

		2018	2017 (restated)	Variance
Revenue	*HK$M*	**1,089**	448	143.1%
Profit attributable to shareholders	*HK$M*	**345**	311	10.9%
Dividends	*HK$M*	**135**	135	—
Shareholders' funds	*HK$M*	**6,130**	5,967	2.7%
Basic earnings per share	*HK$*	**0.97**	0.87	11.5%
Dividend per share	*HK Cents*	**38.0**	38.0	—
Dividend cover	*Times*	**2.6**	2.3	13.0%
Return on equity	*%*	**5.6**	5.2	7.7%
Net assets per share	*HK$*	**17.2**	16.7	3.0%

Group Revenue



Profit attributable to shareholders



KWEILIN STREET / TUNG CHAU STREET PROJECT

In June 2018, the Group was awarded the rights to develop the piece of land located at Kweilin Street / Tung Chau Street in Sham Shui Po, Kowloon, situated at New Kowloon Inland Lot No. 6559 from Urban Renewal Authority. The land covers an area of about 16,038 square feet and will be developed to a total gross floor area of about 144,345 square feet and the Group will be entitled to the residential gross floor area of about 97,845 square feet.

HARBOUR PARK
208 TUNG CHAU STREET, KOWLOON

All residential units of Harbour Park had been sold at the year end of 2018.

CHAIRMAN'S STATEMENT

I am pleased to present to the shareholders my report on the operations of the Group for the year ended 31 December 2018.

Dr. Lam Ko Yin, Colin
Chairman

BUSINESS RESULTS

The Group's consolidated profit after taxation for the year ended 31 December 2018 amounted to approximately HK$345 million, an increase of 11% as compared with the profit after taxation of HK$311 million (restated) last year. The earnings per share this year were HK$0.97 compared with the earnings per share of HK$0.87 (restated) in the previous year.

DIVIDENDS

The Board of Directors has recommended the payment of a final dividend for the year ended 31 December 2018 of HK28 cents per share (2017: HK28 cents per share). Subject to shareholders' approval at the annual general meeting to be held on Wednesday, 29 May 2019, the final dividend will be paid on or about Tuesday, 18 June 2019 to shareholders whose names appear on the register of members of the Company on Tuesday, 11 June 2019. The final dividend, together with the interim dividend of HK10 cents per share has already paid, will make a total distribution of HK38 cents for the full year.

BUSINESS REVIEW

During the year under review, profit for the Group was mainly derived from the sale of the residential units of Harbour Park.

Property Development and Investment Operations

During 2018, the profit of the Group arising from the sale of the residential units of Harbour Park, Green Code, The Spectacle and Metro6 and car parking spaces of Shining Heights amounted to HK$238 million. All residential units of Harbour Park had been sold at the year end of 2018.

Property Development and Investment Operations (Continued)

The gross rental income arising from the commercial arcades of the Group amounted to approximately HK$99 million. The commercial arcades of Shining Heights, The Spectacle and Metro6 were fully let at the end of 2018. The occupancy rate of commercial arcades of Metro Harbour View and Green Code Plaza were 99% and 91% respectively.

In June 2018, the Group was awarded the rights to develop the piece of land located at Kweilin Street/Tung Chau Street in Sham Shui Po, Kowloon, situated at New Kowloon Inland Lot No. 6559 from Urban Renewal Authority at a consideration of HK$1,029.2 million. The land covers an area of about 16,038 square feet and will be developed to a total gross floor area of about 144,345 square feet and the Group will be entitled to the residential gross floor area of about 97,845 square feet.

Foundation works commenced in November 2018 and will be completed in the fourth quarter of 2019. The project is expected to be completed in late 2022.

Tuen Mun Town Lot No. 547

The construction of the Group's 50%/50% joint venture project with Empire Development Hong Kong Limited located at Castle Peak Road, Castle Peak Bay, Area 48, Tuen Mun, New Territories (Tuen Mun Town Lot No. 547) has been in good progress.

The project under construction consists of six residential towers providing about 1,635 units with sea view or landscape view. The gross floor area of the project is about 663,000 square feet and is expected to be completed in 2022.

The site formation and foundation works commenced in the third quarter of 2017 and will be completed in the third quarter of this year. The superstructure works will start immediately thereafter.

Green Code

Ferry, Shipyard and Related Operations

During the year under review, the Ferry, Shipyard and Related Operations recorded a profit of HK$8.4 million, showing a 72% decrease as compared with last year. The decrease was mainly due to the fact that there were more emergency repair businesses in 2017.

Securities Investment

During the year, a profit of HK$17 million in Securities Investment was recorded, showing a decrease of 81% as compared with last year mainly due to the fact that most of the securities of the Group have been disposed of during the year ended 31 December 2017.

PROSPECTS

China and the United States have engaged in active negotiations on the Sino-US trade conflict in recent months. After posting various optimistic messages on twitter, President Donald Trump announced on 24 February 2019 that the US government would delay the imposition of an additional 25% tariff on Chinese goods beyond 1 March, following the constructive progress of the seventh round of Sino-US trade negotiation. The markets expected that favourable results could be concluded ultimately. The stock markets in China, Hong Kong and United States rose significantly in January and February 2019. Furthermore, in order to tackle the economic slowdown, the Chinese government had taken a series of actions, including lowering the bank reserve ratios, encouraging banks to make loans to SMEs, reducing tax, speeding up the approval process in bond issuance, lessening foreign restrictions in entering the A-shares market and relaxing the limitations of foreign company on controlling shareholding, etc. In delivering his "Government Work Report" on 5 March 2019, Premier Li Keqiang announced policies on taxes cut, corporate financing, domestic investment and incentives for foreign investments to stimulate the economic growth. Reductions in tax burden and social insurance contributions of enterprises amounted to nearly RMB2 trillion, all of which will revitalize the economy. It is believed that the economy in China will improve noticeably in mid to late 2019.

Hong Kong economy grew 2.9% year-on-year in the third quarter of 2018 over the previous year. The full year growth forecast in 2019 had been revised to 3.2% by the government. The US Federal Reserve's forecast for this year's interest rate hike has moderated. The Fed announced that they will adopt a more patient strategy in their future monetary policy. The mortgage rates in Hong Kong remain stable, due to ample funds in the banking system, supporting the property market. The various measures to increase the housing and land supply announced by Mrs. Carrie Lam, the Chief Executive, in her 2018 Policy Address, will mostly take time to become effective. It is expected that this year the downward price adjustment of residential properties on average will be limited.

Following the disposal of all the residential units of Harbour Park and the other projects in 2018, the Group is now focusing on the development of the two projects in Tuen Mun and Kweilin Street. It is expected that the sale of the Tuen Mun project will commence by phases at year end. As all the completed residential properties had been sold, the rental income from the commercial arcades will be the main source of income of the Group in 2019. Barring any unforeseen circumstances, the profit of the Group this year is expected to be less than that of 2018.

CONDOLENCES AND ACKNOWLEDGEMENT

Mr. Leung Hay Man, our late Independent Non-executive Director and a member of the Audit Committee and the Remuneration Committee, regrettably passed away on 11 October 2018. Mr. Leung had been the Director of the Company for over thirty-six years. He made valuable contributions to the Company during his long tenure of office. We send our deepest condolences to his family.

Mr. Wong Man Kong, Peter, our late Non-executive Director, regrettably passed away on 11 March 2019. Mr. Wong had been the Director of the Company for over twenty-seven years. He made valuable contributions to the Company during his long tenure of office. We send our deepest condolences to his family.

On behalf of the shareholders and the Board, I would like to take this opportunity to express appreciation to all our staff for their dedication and hard work during the year.

Dr. Lam Ko Yin, Colin
Chairman

Hong Kong, 14 March 2019

The following comments should be read in conjunction with the Audited Consolidated Financial Statements of the Company and the related notes to the financial statements.

REVIEW OF RESULTS

The Group's revenue for the year amounted to approximately HK$1,089 million, representing an increase of 143% when compared to the previous year. This was mainly attributed to the sale of residential units of Harbour Park.

LIQUIDITY, FINANCIAL RESOURCES AND CAPITAL STRUCTURE

As of 31 December 2018, shareholders' funds of the Group showed a mild increase of around 2.7% as compared to the previous year and amounted to approximately HK$6,130 million. The increase was mainly due to the net effect of the profit realised from property sales, the gains on revaluation of the Group's investment properties and the payment of dividends.

There was no change to the capital structure of the Group during the year. Funding for the Group's activities during the year under review was mainly generated from the sale of the Group's properties and other operations.

Current assets of the Group were recorded at approximately HK$2,418 million and the current liabilities were approximately HK$180 million as of 31 December 2018. Current ratio of the Group had been increased to 13.4 as at 31 December 2018, mainly attributed to the decrease in trade and other payables.

CHARGE OF ASSETS

As at 31 December 2018, shares in the Joint Venture Company were charged to secure the loan facility made available by banks to the Joint Venture Company. Details of the loan facility, the relevant guarantees granted and the securities provided are set out in note 27 on page 157 and note 28(b)(xii) on page 164 to the financial statements of this Annual Report.

GEARING RATIO AND FINANCIAL MANAGEMENT

As there was no borrowing as at 31 December 2018, no gearing ratio, which is calculated on the basis of bank borrowing as a ratio of the Group's shareholders' fund, was shown.

The Group's financing and treasury activities were managed centrally at the corporate level. Financing facilities extended to the Group were denominated in Hong Kong dollar.

EMPLOYEES

As at 31 December 2018, the number of employees of the Group stood at about 220 (2017: about 210). Total employees' costs for the year amounted to approximately HK$101 million. The remuneration packages to employees were commensurable to the market trend and levels of pay in similar industries. A discretionary year-end bonus was paid to employees based on individual performance. Other benefits to employees included medical insurance, retirement scheme, training programmes and educational subsidies.

Metro6

REPORT OF THE DIRECTORS

The directors have pleasure in submitting their Annual Report together with the audited financial statements for the year ended 31 December 2018.

PRINCIPAL PLACE OF BUSINESS

Hong Kong Ferry (Holdings) Company Limited (the "Company") is a company incorporated and domiciled in Hong Kong and has its registered office and principal place of business at 98 Tam Kon Shan Road, TYTL 102, Ngau Kok Wan, North Tsing Yi, New Territories, Hong Kong.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and the principal activities of its subsidiaries are property development, property investment, ferry, shipyard and related businesses and securities investment.

The analysis of the principal activities of the Company and its subsidiaries (the "Group") during the financial year are set out in note 3 to the financial statements.

BUSINESS REVIEW

A review of the business of the Group during the year is provided in Management Discussion and Analysis on page 13 and Chairman's Statement on pages 10 to 12 of this Annual Report. A discussion on the Group's future business development is provided in the Chairman's Statement on pages 10 to 12 of this Annual Report. Description of the principal risks and uncertainties that the Group may be facing can be found in the Chairman's Statement on pages 10 to 12 and the section of Risk Management and Internal Controls on pages 35 to 38 of Corporate Governance Report of this Annual Report. Financial risk management of the Group can be found in note 24 to the financial statements on pages 153 to 156 of this Annual Report. An analysis of the Group's performance during the year using financial key performance indicators is provided in the Financial Highlights on page 8 and Five Years' Financial Summary on pages 168 to 170 of this Annual Report respectively.

Discussions on the Group's environmental policies and performance, relationships with its key stakeholders which have a significant impact on the Group are contained in Environmental, Social and Governance Report on pages 42 to 72 of this Annual Report. These discussions form part of this Report of the Directors.

Discussion on Environmental Policies and Performance

The Hong Kong Ferry Group is devoted to integrating sustainable practices in its operations to contribute to a better future. We constantly search for opportunities to enhance our resource conservation and to minimise negative impacts on the environment. Since 2011, our two fuel-intensive subsidiaries have undergone carbon audits conducted under the Energy and Carbon Management Programme. At our Principal Office, we commission environmental consultants to monitor our energy usage and explore energy savings solutions. Our property development and investment businesses incorporate sustainability features from the beginning of our projects in the design and construction phases, and conduct energy-simulation modelling studies to identify the most optimal energy-saving approaches.

The Group has made great strides in maintaining air quality within the harbour and the shared community around it. After the completion of our self-initiated and voluntary vessel engine and generator replacement programme, we set our sights on improving roadside air quality by upgrading one of our road vehicles to the new EURO VI emission standard this year. To augment our water conservation efforts we installed automated water faucets and water-saving aerators within our Principal Office and Harbour Cruise - Bauhinia operations. To magnify the success of our first rainwater harvester, we have installed a second harvester in the shipyard area to further reduce our freshwater consumption. We have made considerable efforts to ensure waste materials and other useful resources are reused, recovered and recycled whenever possible, before the consideration of landfill disposal.

BUSINESS REVIEW (Continued)

Account of Key Relationships with Employees, Customers and Suppliers

The Group seeks to cultivate positive relationships with our key stakeholder groups by upholding the highest standards of business ethics and taking their interests into full account. We regularly engage and communicate with our employees, customers and suppliers and respond in a timely manner to address their needs and concerns.

Employees

The Group is steadfast in providing a supportive, inclusive, caring and safe work environment, with a strong emphasis on equal opportunities, and a fair and transparent recruitment process. All relevant anti-discrimination and personal data protection regulations are strictly observed. Our employees are remunerated with competitive salaries and benefits commensurate with work experience and job duties. To support staff learning and development, the Group encourages our employees to pursue different interests and offers internal and external opportunities to realise their full potential. We ensure our work environments are free from any potential occupational health and safety hazards. At shipyard operation, a Safety Committee was established to oversee health and safety measures and initiatives. Regular inspections are carried out by our Safety Officer to ensure safe operational practices and identify areas for rectification as appropriate.

Customers

The Group aspires to provide efficient, professional and quality services to satisfy customers' needs. To gather their thoughts and suggestions, we conduct regular customer satisfaction surveys and review detailed client feedback from the Service Evaluation Record. Analysing customer engagement data helps the Group to improve performance and develop business strategies which align with customer expectations. Our Ferry, Shipyard and Harbour Cruise - Bauhinia operations adopt the internationally recognised ISO 9001:2015 Quality Management Systems, to ensure accountability for our quality standards. We operate with a high level of business ethics and product responsibility, and strictly comply with all relevant intellectual property rights and customer data privacy regulations.

Suppliers

To demonstrate corporate responsibility, the Group extends its sustainability values throughout our supply chain. Our Code of Conduct provides guidance for fair and open procurement and tendering procedures, and ensures impartial and unbiased selection of competent suppliers and contractors. Through our Supplier Evaluation Report and Supplier Performance Review, we assess the suitability and performance of our suppliers and contractors regularly. These appraisals allow us to maintain our consistent service quality. All suppliers and contractors must comply with all local environmental, employment and safety related regulations.

Compliance Status with Relevant Laws and Regulations that have a Significant Impact on the Business

During the reporting year, there were no reported cases of non-compliance with applicable laws and regulations in Hong Kong on the environment, labour standards, occupational health and safety, anti-corruption, and customer privacy and intellectual property that have a significant impact on the Group.

MAJOR CUSTOMERS AND SUPPLIERS

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

	Percentage of the Group's total purchases
The largest supplier	21.9%
Five largest suppliers in aggregate	42.3%

No analysis in respect of the Group's major customers is shown as the percentage of revenue attributable to the Group's five largest customers is less than 30%.

MAJOR CUSTOMERS AND SUPPLIERS (Continued)

Apart from the foregoing, at no time during the year have the directors, their associates or any shareholder of the Company (which to the knowledge of the directors owns more than 5% of the number of issued shares of the Company) had any interest in these major customers and suppliers.

SUBSIDIARIES

Details of the principal subsidiaries of the Company at 31 December 2018 are set out in note 12 to the financial statements.

FINANCIAL STATEMENTS AND DIVIDENDS

The profit of the Group for the year ended 31 December 2018 and the financial position of the Group at that date are set out in the financial statements on pages 79 to 167.

An interim dividend of HK10 cents per share (2017: HK10 cents per share) was paid on 27 September 2018. The Board of Directors (the "Board") has recommended the payment of a final dividend for the year ended 31 December 2018 of HK28 cents per share (2017: HK28 cents per share). Subject to shareholders' approval at the annual general meeting to be held on Wednesday, 29 May 2019 (the "2019 annual general meeting"), the final dividend will be paid on or about Tuesday, 18 June 2019 to shareholders whose names appear on the register of members of the Company on Tuesday, 11 June 2019.

CHARITABLE DONATIONS

Charitable donations made by the Group during the year amounted to HK$28,070 (2017: HK$5,880).

SHARE CAPITAL

Details of the movements in share capital of the Company during the year are set out in note 23 to the financial statements.

DIRECTORS

The directors of the Company during the year ended 31 December 2018 and up to the date of this report were:

Executive Directors

Dr. Lam Ko Yin, Colin *(Chairman of the Board)*
Mr. Li Ning

Non-executive Directors

Mr. Au Siu Kee, Alexander
Mr. Lau Yum Chuen, Eddie
Dr. the Hon. Lee Shau Kee
Mr. Wong Man Kong, Peter *(until 11 March 2019)*

Independent Non-executive Directors

Mr. Ho Hau Chong, Norman
Mr. Leung Hay Man *(until 11 October 2018)*
Ms. Wong Yu Pok, Marina
Mr. Wu King Cheong

A list of the names of the Directors of the Group's subsidiaries is available on the website of the Company (www.hkf.com).

In accordance with Article 103(A) of articles of association of the Company (the "Articles of Association") and Corporate Governance Code (the "Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), Mr. Li Ning, Mr. Au Siu Kee, Alexander and Ms. Wong Yu Pok, Marina shall retire by rotation at the 2019 annual general meeting, and, being eligible, offer themselves for re-election. Ms. Wong Yu Pok, Marina, an Independent Non-executive Director, has served the Company for more than nine years. Pursuant to the Code, her re-election shall be subject to a separate resolution to be approved by the shareholders at the 2019 annual general meeting.

The Company has received from each Independent Non-executive Director an annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules and the Company considered all of them to be independent.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Biographical details, of Directors and Senior Management are set out in the Directors' and Senior Management's Profile on pages 3 to 7 of this Annual Report.

DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

Details of Directors' and Chief Executive's emoluments are set out in note 7 to the financial statements.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Except for the "Connected Transactions" as disclosed in this report, no other transaction, arrangement or contract of significance to which the Company, or any of its holding company, subsidiaries or fellow subsidiaries was a party, and in which a director of the Company had a material interest, subsisted at the end of the year or at any time during the year.

DIRECTORS' SERVICE CONTRACTS

None of the directors proposed for re-election at the 2019 annual general meeting has a service contract with the Company which is not determinable by the Company or any of its subsidiaries within one year without payment other than statutory compensation.

PERMITTED INDEMNITY PROVISION

According to the Articles of Association, every Director or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities to the fullest extent permitted by the Companies Ordinance, Chapter 622 of the Laws of Hong Kong which he may sustain or incur in or about the execution of the duties of his office or otherwise in relation thereto. The Company has arranged appropriate directors' and officers' liability insurance coverage for the Directors and officers of the Group.

DISCLOSURE OF INTERESTS

Directors' Interests in Securities

As at 31 December 2018, the interests and short positions of each Director of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the SFO or the Model Code for Securities Transactions by Directors of Listed Issuers were as follows:

Interests

	THE COMPANY				
	Personal Interests *Number of Shares*	**Corporate Interests** *Number of Shares*	**Family Interests** *Number of Shares*	**Total Interests** *Number of Shares*	**Approximate percentage of the total number of issued shares**
Dr. Lam Ko Yin, Colin	150,000	–	–	150,000	0.04%
Mr. Au Siu Kee, Alexander	–	–	–	–	0.00%
Mr. Ho Hau Chong, Norman	3,313,950	–	–	3,313,950	0.93%
Mr. Lau Yum Chuen, Eddie	–	–	–	–	0.00%
Dr. Lee Shau Kee	799,220	119,017,090 *(Note 5 on page 20)*	–	119,816,310	33.63%
Mr. Li Ning	–	–	119,017,090 *(Note 4 on page 20)*	119,017,090	33.41%
Mr. Wong Man Kong, Peter *(until 11 March 2019)*	1,051,000	–	–	1,051,000	0.29%
Ms. Wong Yu Pok, Marina	–	–	–	–	0.00%
Mr. Wu King Cheong	–	–	–	–	0.00%

	2OK COMPANY LIMITED	
	Corporate Interests *Number of Shares*	**Family Interests** *Number of Shares*
Dr. Lee Shau Kee *(Note 1)*	5	–
Mr. Li Ning *(Note 2)*	–	5

	WINWIDE LIMITED	
	Corporate Interests *Number of Shares*	**Family Interests** *Number of Shares*
Dr. Lee Shau Kee *(Note 3)*	70	–
Mr. Li Ning *(Note 4)*	–	70

DISCLOSURE OF INTERESTS (Continued)

Directors' Interests in Securities (Continued)

Interests (Continued)

Notes:

1. These 5 shares representing 50% equity interest in 2OK Company Limited (an associated company in which the Company through a subsidiary owned the remaining 50% interest) were beneficially owned by wholly-owned subsidiaries of Henderson Land Development Company Limited ("HLD"). Henderson Development Limited ("HD") beneficially owned more than one-third of the total number of issued shares of HLD. Rimmer (Cayman) Limited and Riddick (Cayman) Limited as trustees of the respective discretionary trusts held units in a unit trust (the "Unit Trust"). Hopkins (Cayman) Limited as trustee of the Unit Trust owned all the issued ordinary shares which carried the voting rights in the share capital of HD. Dr. Lee Shau Kee beneficially owned all the issued share capital of Rimmer (Cayman) Limited, Riddick (Cayman) Limited and Hopkins (Cayman) Limited. By virtue of the SFO, Dr. Lee Shau Kee was taken to be interested in these 5 shares in 2OK Company Limited.

2. By virtue of the SFO, Mr. Li Ning was taken to be interested in these 5 shares in 2OK Company Limited as Mr. Li's spouse was one of the discretionary beneficiaries of the two discretionary trusts holding units in the Unit Trust.

3. These 70 shares representing 70% equity interest in Winwide Limited (an associated company in which the Company through a subsidiary owned the remaining 30% interest) were beneficially owned by a company in which HLD had a 40% interest and HD had the remaining 60% indirect interest. HD beneficially owned more than one-third of the total number of issued shares of HLD. Rimmer (Cayman) Limited and Riddick (Cayman) Limited as trustees of the respective discretionary trusts held units in the Unit Trust. Hopkins (Cayman) Limited as trustee of the Unit Trust owned all the issued ordinary shares which carried the voting rights in the share capital of HD. Dr. Lee Shau Kee beneficially owned all the issued share capital of Rimmer (Cayman) Limited, Riddick (Cayman) Limited and Hopkins (Cayman) Limited. By virtue of the SFO, Dr. Lee Shau Kee was taken to be interested in these 70 shares in Winwide Limited.

4. By virtue of the SFO, Mr. Li Ning was taken to be interested in these 70 shares in Winwide Limited as Mr. Li's spouse was one of the discretionary beneficiaries of the two discretionary trusts holding units in the Unit Trust.

Other than as stated above, no directors or chief executives of the Company had any interest or short position, whether beneficial or non-beneficial, in the shares (in respect of positions held pursuant to equity derivatives), underlying shares and debentures of the Company or any of its associated corporations as at 31 December 2018.

SUBSTANTIAL SHAREHOLDERS AND OTHERS

As at 31 December 2018, the interests in ordinary shares of the Company of every person as recorded in the register required to be kept under Section 336 of the SFO were as follows:

	Number of shares in which interested	Approximate percentage of the total number of issued shares
Substantial Shareholders		
Henderson Land Development Company Limited *(Note 1)*	119,017,090	33.41%
Pataca Enterprises Limited *(Note 1)*	119,017,090	33.41%
Wiselin Investment Limited *(Note 1)*	48,817,090	13.70%
Henderson Development Limited *(Note 2)*	119,017,090	33.41%
Hopkins (Cayman) Limited *(Note 3)*	119,017,090	33.41%
Rimmer (Cayman) Limited *(Note 3)*	119,017,090	33.41%
Riddick (Cayman) Limited *(Note 3)*	119,017,090	33.41%
Mr. Li Ning *(Note 4)*	119,017,090	33.41%
Dr. Lee Shau Kee *(Note 5)*	119,816,310	33.63%
Persons other than Substantial Shareholders		
Graf Investment Limited *(Note 1)*	23,400,000	6.57%
Mount Sherpa Limited *(Note 1)*	23,400,000	6.57%
Paillard Investment Limited *(Note 1)*	23,400,000	6.57%

Notes:

1. These 119,017,090 shares included the 48,817,090 shares, 23,400,000 shares, 23,400,000 shares and 23,400,000 shares respectively beneficially owned by Wiselin Investment Limited, Graf Investment Limited, Mount Sherpa Limited and Paillard Investment Limited, all of which were subsidiaries of Pataca Enterprises Limited which in turn was a subsidiary of Henderson Land Development Company Limited ("HLD").

2. These 119,017,090 shares are duplicated in the interests described in Note 1. Henderson Development Limited ("HD") beneficially owned more than one-third of the total number of issued shares of HLD.

3. These 119,017,090 shares are duplicated in the interests described in Notes 1 and 2. Rimmer (Cayman) Limited and Riddick (Cayman) Limited as trustees of the respective discretionary trusts held units in a unit trust (the "Unit Trust"). Hopkins (Cayman) Limited as trustee of the Unit Trust owned all the issued ordinary shares, which carry the voting rights in the share capital of HD.

4. By virtue of the SFO, Mr. Li Ning was taken to be interested in these 119,017,090 shares as Mr. Li's spouse was one of the discretionary beneficiaries of two discretionary trusts holding units in the Unit Trust. These 119,017,090 shares are duplicated in the interests described in Notes 1, 2 and 3.

5. Dr. Lee Shau Kee beneficially owned all the issued share capital of Rimmer (Cayman) Limited, Riddick (Cayman) Limited and Hopkins (Cayman) Limited. By virtue of the SFO, Dr. Lee Shau Kee was taken to be interested in 119,017,090 shares which are duplicated in the interests described in Notes 1, 2 and 3. Together with his personal shareholding of 799,220 shares, Dr. Lee Shau Kee was taken to be interested in 119,816,310 shares (approximately 33.63% of the total number of issued shares of the Company) as at 31 December 2018.

Save as disclosed, as at 31 December 2018, the Company has not been notified of any other relevant interests or short positions in the shares or underlying shares of the Company.

RESERVES

Profits attributable to shareholders, before dividend, of HK$344,643,000 (2017 (restated): HK$311,125,000) have been transferred to reserves. Other movements in reserves during the year are set out in note 23 to the financial statements.

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

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

ARRANGEMENT TO PURCHASE SHARES, WARRANTS, OPTIONS OR DEBENTURES

At no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable the directors, chief executive of the Company or any of their spouses or children under eighteen years of age to acquire benefits by means of the acquisition of shares, options, debentures or warrants of the Company or any other body corporate.

EQUITY-LINKED AGREEMENTS

For the year ended 31 December 2018, the Company has not entered into any equity-linked agreements.

FINANCIAL SUMMARIES

The five years' financial summary of the Group are set out on pages 168 to 170 of this Annual Report.

GROUP PROPERTIES

A summary of the Group's properties is set out on pages 171 and 172 of this Annual Report.

RETIREMENT PLANS

The Group's Hong Kong employees participate either in a defined benefit retirement scheme or a Mandatory Provident Fund scheme. Particulars of these retirement plans are set out in note 16 to the financial statements.

DISCLOSURE PURSUANT TO RULES 13.20 AND 13.22 OF THE LISTING RULES

As at 31 December 2018, the Group had granted financial assistance and a guarantee to Win Standard Enterprises Limited, the Joint Venture Company held indirectly by the Company as to 50% and Empire Development Hong Kong Limited ("Empire Group") as to 50% as set out below:

	Group's attributable interest	**Amount of advances made by the Group** *Note 1* *HK$'000*	**Guarantee given for the Joint Venture Company in respect of a bank facility** *Note 2* *HK$'000*	**Total financial assistance made available by the Group** *HK$'000*
The Joint Venture Company	50%	1,390,804	1,500,000	2,890,804

DISCLOSURE PURSUANT TO RULES 13.20 AND 13.22 OF THE LISTING RULES (Continued)

Notes:

1. Such advances were funded (in proportion to the Group's 50% equity interest in the Joint Venture Company) by the Group's internal resources and from its cash deposits, to finance the payment of the land premium of HK$2,708,800,000 and professional fees incurred in relation to the acquisition of Tuen Mun Town Lot No. 547 located at Castle Peak Road, Castle Peak Bay, Area 48, Tuen Mun, New Territories, Hong Kong (the "Land") from the Government by public tender.

2. In May 2017, a loan facility agreement was entered into among, among others, the Joint Venture Company (as borrower), the Company (as guarantor), related companies of Empire Group (as guarantor and obligor), and the financial institutions named therein (as lenders) in relation to a term loan facility in the aggregate principal amount of HK$3,000,000,000 for the purpose of financing and refinancing the demolition cost, construction cost and professional fees in relation to the development on the Land and the selling and marketing expenses in relation thereto. The loan facility is secured by, among others, a corporate guarantee granted by the Company in respect of 50% of the loan facility.

The advances made by the Group to the Joint Venture Company consisted of an amount due from the Joint Venture Company and a loan to the Joint Venture Company. The amount due from the Joint Venture Company was unsecured, interest-bearing at a rate to be agreed between the Group and Empire Group and have no fixed terms of repayment (subject to the deed of subordination and assignment in favour of the lenders of the loan facility). The loan to the Joint Venture Company was unsecured, interest-bearing at a rate to be agreed between the Group and Empire Group and recoverable on demand (subject to the deed of subordination and assignment in favour of the lenders of the loan facility).

Pursuant to Rule 13.22 of the Listing Rules, a combined statement of financial position of the Company's affiliated companies (as defined in the Listing Rules) with financial assistance from the Group and the Group's attributable interest in those affiliated companies as at 31 December 2018 are presented as follows:

	Combined statement of financial position *HK$'000*	Group's attributable interests *HK$'000*
Non-current assets	12,443	6,222
Current assets	2,910,483	1,455,241
Current liabilities	(129,923)	(64,961)
Total assets less current liabilities	2,793,003	1,396,502
Non-current liabilities	(2,807,346)	(1,403,673)
Net liabilities	(14,343)	(7,171)

The combined statement of financial position of the Company's affiliated companies was prepared by combining their statements of financial position, after making adjustments to conform with the Group's significant accounting policies and re-grouping into significant classification in the statement of financial position, as at 31 December 2018.

CONNECTED TRANSACTIONS

Pursuant to the transactions and arrangements entered into by the Group with persons who are connected persons for the purposes of the Listing Rules, the Group recorded the transactions as described in note 28 to the financial statements.

Continuing Connected Transactions

For the year ended 31 December 2018 and up to the date of this Annual Report, the Company and/or its subsidiaries have been entered into certain continuing connected transactions, with details below, which were subject to reporting and announcement requirements but are exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules:

	Date	Connected Persons	Transactions
1.	30 October 2015	Henderson Real Estate Agency Limited ("HREAL"), a wholly-owned subsidiary of Henderson Land Development Company Limited ("HLD")	TCS Project Management Agreement between Jet Legend Limited ("JLL"), a wholly-owned subsidiary of the Company and HREAL for the appointment of HREAL as the project manager, for the development of 208 Tung Chau Street, Sham Shui Po, Kowloon, Hong Kong (the "TCS Property" or the "Proposed TCS Development") for a term of three years commencing from 2 November 2015. The aggregate remuneration for the services to be provided by HREAL shall be subject to a total annual ceiling of HK$1,500,000 for the year ended 31 December 2018. Details of the TCS Project Management Agreement were set out in the announcement of the Company dated 30 October 2015.
2.	30 October 2015	Heng Tat Construction Company Limited ("Heng Tat"), a wholly-owned subsidiary of HLD	TCS Prime Cost Contract between JLL and Heng Tat, for the appointment of Heng Tat as the main contractor of the Proposed TCS Development for a term of three years commencing from 2 November 2015. The aggregate of the prime costs of all works carried out by Heng Tat or by any connected persons (as defined in the Listing Rules) of the Company together with the 5% fee shall be subject to a total annual ceiling of HK$970,000 for the year ended 31 December 2018. Details of the TCS Prime Cost Contract were set out in the announcement of the Company dated 30 October 2015.

CONNECTED TRANSACTIONS (Continued)

Continuing Connected Transactions (Continued)

	Date	Connected Persons	Transactions
3.	30 October 2015	Henderson Property Agency Limited ("HPAL"), a wholly-owned subsidiary of HLD	TCS Sales Management Agreement between JLL and HPAL for the appointment of HPAL as the sales manager of the Proposed TCS Development for a term of three years commencing from the date of the first initial sale of any residential units of the TCS Property. The sales fee of half of one per cent. (0.5%) of the gross proceeds of sale of the residential units and other portions of the TCS Property shall be subject to the ceiling of HK$200,000 for the year ended 31 December 2018. Details of the TCS Sales Management Agreement were set out in the announcement of the Company dated 30 October 2015.
4.	23 June 2017	Citistore (Hong Kong) Limited ("Citistore"), an indirectly non-wholly owned subsidiary of HLD, and HREAL	The Group (by HREAL as agent) as landlord entered into a renewal offer letter A (the "Renewal Offer Letter A") with Citistore as tenant in respect of the leasing of Shop Nos. G01, Portion of G31, G35–G50, Portion of G51, Portion of G52, G63–G74 and corridors and atrium on Ground Floor, Metro Harbour Plaza ("MHP"), Tai Kok Tsui, Kowloon, Hong Kong ("Previous Premises 1") and Bridge area on Level 1, MHP ("Premises 2") for a term of one year commencing from 1 July 2017 to 30 June 2018. The term of the Renewal Offer Letter A expired in June 2018. The Group (by HREAL as agent) as landlord entered into a renewal offer letter B (the "Renewal Offer Letter B") with Citistore as tenant in respect of the leasing of Shop Nos. 127–161 and corridors and toilets on Level 1, MHP ("Premises 3") for a term of three years commencing from 1 July 2017 to 30 June 2020. The aggregate rentals, management fees, air-conditioning charges, promotional levy and other miscellaneous charges (exclusive of Government rates) under the Renewal Offer Letter A and the Renewal Offer Letter B, subject to annual ceiling of HK$11,300,000 for the year ended 31 December 2018. Details of the Renewal Offer Letter A and the Renewal Offer Letter B were set out in the announcement of the Company dated 23 June 2017.

CONNECTED TRANSACTIONS (Continued)

Continuing Connected Transactions (Continued)

Date	Connected Persons	Transactions
22 June 2018	Citistore and HREAL	The Group (by HREAL as agent) as landlord entered into a 2018 renewal offer letter A (the "2018 Renewal Offer Letter A") with Citistore as tenant in respect of the leasing of Shop Nos. G01, Portion of G31, G37–G50, Portion of G51, Portion of G52, G63–G74 and corridors and atrium on Ground Floor, MHP ("Premises 1") and Premises 2 for a term of two years commencing from 1 July 2018 to 30 June 2020. The aggregate rentals, management fees, air-conditioning charges, promotional levy and other miscellaneous charges (exclusive of Government rates) under the 2018 Renewal Offer Letter A and the Renewal Offer Letter B, subject to the revised annual ceiling of HK$15,000,000 (inclusive of the relevant cap applicable to the Renewal Offer Letter A) for the year ended 31 December 2018. Details of the 2018 Renewal Offer Letter A and the revision of annual caps were set out in the announcement of the Company dated 22 June 2018.

Details of the above continuing connected transactions are set out in note 28 to the financial statements.

The Independent Non-executive Directors of the Company have reviewed and confirmed that the above continuing connected transactions for the year ended 31 December 2018 have been entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms; and (iii) in accordance with the relevant agreements governing such transactions on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued their unqualified letter containing the auditor's findings and conclusions in respect of the continuing connected transactions disclosed by the Group on pages 23 to 25 of this Annual Report in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to The Stock Exchange of Hong Kong Limited.

The auditor of the Company have also confirmed to the Board in writing that the above continuing connected transactions for the year ended 31 December 2018 (i) have received the approval of the Board or Connected Transaction Committee which was set up by the Board; (ii) have been entered into in accordance with the relevant agreements governing the transactions; and (iii) have not exceeded the cap disclosed in the previous announcements.

CORPORATE GOVERNANCE

The Company is committed to maintaining the high standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the Corporate Governance Report on pages 27 to 41 of this Annual Report.

AUDIT COMMITTEE

The Audit Committee has reviewed the audited financial statements of the Group for the year ended 31 December 2018 and discussed with internal audit department and independent external auditor in respect of matters on auditing, internal control and financial reports of the Group.

PUBLIC FLOAT

As at the date of this report, the Company has maintained the prescribed public float under the Listing Rules, based on the information that is publicly available to the Company and within the knowledge of the directors.

AUDITOR

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of KPMG as auditor of the Company is to be proposed at the 2019 annual general meeting.

On behalf of the Board

Dr. Lam Ko Yin, Colin	**Li Ning**
Chairman	*Director*

Hong Kong, 14 March 2019

CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining high standard of corporate governance. The Board of Directors (the "Board") is devoted to the ongoing enhancement of the corporate governance practices of the Company as the Board believes that good corporate governance practices are fundamental to the effective operation of a company and enhancement of shareholders' value as a whole.

In the opinion of the Board, the Company has complied with the code provisions of the Corporate Governance Code (the "Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") throughout the year ended 31 December 2018. The Board shall review and update its corporate governance practices from time to time to ensure its continuous compliance with the Code.

BOARD OF DIRECTORS

Responsibility and delegation

The Board is primarily responsible for considering and deciding on matters covering overall Group strategies, business and investment plans, major acquisitions and disposals, annual financial budgets, approving annual reports and interim reports, announcement of annual results and interim results, dividend policy and payments, appointment of directors, oversight of management and oversee the effectiveness of the risk management and internal control systems of the Group including the adequacy of resources, qualifications and experience of staff of the accounting and financial reporting functions and internal audit function, and their respective training programmes and budget, approval of major capital transactions and other significant operational and financial matters.

The functions reserved to the Board are basically provided by the articles of association of the Company (the "Articles of Association") and the Board will from time to time delegate the functions to the management whenever required. The management of the Company is responsible for the day-to-day operations of the Company and implementation of strategies adopted by the Board.

The Board focuses its attention on matters affecting the Company's long term objectives and plans for achieving these objectives, the Group's overall business and commercial strategy as well as overall policies and guidelines.

The Board has established board committees with written terms of references to assist in the efficient implementation of its functions, namely the Audit Committee, the Remuneration Committee and the Nomination Committee. Specific responsibilities have been delegated to the above Board Committees.

Board meetings are held regularly four times a year and additional meetings are held as and when required to discuss significant matters or important issues. In order to meet tight time constraints and make timely decision for the Company's policies and businesses, Board approvals have also been sought by circulation of resolutions in writing from time to time in accordance with the Articles of Association. Directors' attendance by electronic means including telephone conferencing is counted as attendance at a physical board meeting. The Company Secretary shall attend all regular board meetings and additional meetings to advise on statutory compliance and corporate governance, when necessary.

During the year, the Chairman, even though he is an Executive Director, held a meeting with all Non-executive Directors (including all Independent Non-executive Directors) without the presence of another Executive Director.

All Directors have been provided, on a monthly basis, with the Group's management information updates, giving a balanced and understandable assessment of the Group's performance, position, and budget, to keep them abreast of the Group's affairs and facilitate them to discharge their duties under the relevant requirements of the Listing Rules.

BOARD COMPOSITION

The Board currently has eight Directors including two Executive Directors, three Non-executive Directors and three Independent Non-executive Directors. The names of the Directors of the Company are as follows:

Executive Directors

Dr. Lam Ko Yin, Colin *(Chairman of the Board)*
Mr. Li Ning

Non-executive Directors

Mr. Au Siu Kee, Alexander
Mr. Lau Yum Chuen, Eddie
Dr. the Hon. Lee Shau Kee

Independent Non-executive Directors

Mr. Ho Hau Chong, Norman
Ms. Wong Yu Pok, Marina
Mr. Wu King Cheong

The changes to the composition of the Board during the year and up to the date of this Annual Report were as follows:

Mr. Leung Hay Man was the Independent Non-executive Director and served the Board until October 2018. Mr. Wong Man Kong, Peter was the Non-executive Director and served the Board until March 2019.

The biographical details of the Directors are set out in the section headed "Directors' and Senior Management's Profile" on pages 3 to 6 of this Annual Report. A list of the Directors and their role and function is available on the websites of the Company (www.hkf.com) and Hong Kong Exchanges and Clearing Limited ("HKEx") (www.hkexnews.hk) respectively.

Dr. Lee Shau Kee and Mr. Li Ning are deemed as having substantial interests in the total number of issued shares of the Company under Part XV of the Securities and Futures Ordinance ("SFO"). Dr. Lee is the father-in-law of Mr. Li Ning. Dr. Lee Shau Kee, Dr. Lam Ko Yin, Colin and Mr. Lau Yum Chuen, Eddie are executive directors of Henderson Land Development Company Limited ("HLD"). Mr. Wu King Cheong is an independent non-executive director of HLD. HLD has discloseable interests under the provisions of the SFO in the Company.

Save as disclosed above, there is no financial, business, family or other material or relevant relationship among the Directors.

BOARD DIVERSITY POLICY

The Board has approved and adopted the Board Diversity Policy setting out the approach to achieve diversity on the Board in August 2013 and reviewed and updated in December 2018. The Nomination Committee of the Company has considered measurable objectives mainly on gender, age, professional experience and ethnicity to implement the Board Diversity Policy. The Company recognises and embraces the benefits of having a diverse Board to enhance the quality of its performance. The selection and recommendation of candidates will be based on the nomination procedures, process and criteria adopted by the Board and a range of diversity perspectives, which would include but not be limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

The Board is satisfied that its composition is appropriate being considered the skills, experience and attributes of the Directors. The Nomination Committee will monitor the implementation of the Board Diversity Policy and review the policy as appropriate. The Board Diversity Policy can be found and accessible on the website of the Company (www.hkf.com).

NOMINATION POLICY

The Board has approved and adopted the Nomination Policy in December 2018 for identifying and evaluating candidates for nomination to the Board taking into consideration the revised Listing Rules effective from 1 January 2019. The Nomination Policy aims to set out the principles which guide the Nomination Committee to identify and evaluate a candidate for nomination to (i) the Board for appointment or (ii) shareholders of the Company for election as a director of the Company. The Nomination Committee will also take into account the Board Diversity Policy and the Nomination Policy when identifying suitably qualified candidates for the Board and would review the Policies regularly to ensure their continuing effectiveness. The Nomination Policy sets out the criteria and procedures in making nominations, including but not limited to, skills, experience and professional expertise; diversity; commitment and standing. When the candidate to be nominated as an independent non-executive director, he/she must satisfy the independence criteria set out in Rule 3.13 of the Listing Rules. No candidate was nominated for directorship in 2018. The Nomination Policy can be found and accessible on the website of the Company (www.hkf.com).

APPOINTMENT AND RE-ELECTION OF DIRECTORS

The Nomination Committee is responsible to review the structure, size, diversity and composition of the Board, identify suitable candidates to the Board, and to make recommendations on any matters in relation to the appointment or re-appointment of members of the Board. Appointment of new Directors is reserved for the Board's approval.

The Nomination Committee ensures that the Board comprises members with mixed skills and experience with appropriate knowledge necessary to accomplish the Group's business development, strategies, operation, challenges and opportunities. The Nomination Committee takes into account that person's skills, qualifications and expected contributions to the Company before making any recommendations to the Board in relation to the appointment or re-appointment of members of the Board.

The Nomination Committee noted that the proposed re-election of Ms. Wong Yu Pok, Marina ("Ms. Wong") who had been serving as an Independent Non-executive Director of the Company since May 2008 for more than nine years, shall be subject to a separate resolution to be approved by the shareholders at the annual general meeting to be held on Wednesday, 29 May 2019 (the "2019 annual general meeting") pursuant to the Code.

Ms. Wong is also a member of Audit Committee, Remuneration Committee and Nomination Committee of the Company.

Ms. Wong has met the independence guidelines set out in Rule 3.13 of the Listing Rules and has also given an annual confirmation of her independence to the Company. Ms. Wong has served in this capacity for more than nine years. Notwithstanding her long-term service, given her extensive commercial and financial experiences, the Nomination Committee and the Board are of the opinion that she continues to bring independent and objective perspectives to the Company's affairs and provides valuable insights to the management. The Nomination Committee also considered that Ms. Wong has continuously contributed to the Company and the Board with her relevant experience and knowledge throughout her years of service. The Nomination Committee and the Board, therefore, recommended her to be re-elected. Ms. Wong shall retire by rotation in accordance with the Articles of Association at the 2019 annual general meeting. Her further appointment should be subject to a separate resolution to be approved by Shareholders at the 2019 annual general meeting in accordance with the Code.

The appointment of independent non-executive directors adheres to the guidelines for assessing independence set out in Rule 3.13 of the Listing Rules.

According to the Articles of Association, a newly appointed Director shall hold office until the next following general meeting of the Company (in case of filling a casual vacancy) or until the next following annual general meeting (in case of an addition to the Board) and shall then be eligible for re-election at that general meeting.

APPOINTMENT AND RE-ELECTION OF DIRECTORS (Continued)

In accordance with the Articles of Association, no Director shall hold office for a continuous period in excess of three years, or past the third annual general meeting, following the Director's appointment or re-election, whichever is the longer, without submitting for re-election at an annual general meeting of the shareholders of the Company.

In addition, at each annual general meeting one-third of the Directors for the time being or, if their number is not three or a multiple of three, the number nearest to but not less than one-third, shall retire from office by rotation at least once every three years.

The procedures for shareholders of the Company to propose a person for election as a Director are available and accessible on the website of the Company (www.hkf.com) and to the section of "Procedures for Shareholders to propose a person for election as a director" on page 41 of this Corporate Governance Report.

CHAIRMAN AND GROUP GENERAL MANAGER

The roles of the Chairman and the Group General Manager of the Company are taken by two separate individuals who are not related to each other. The separation of the roles of the Chairman and the Group General Manager enables a clear division of responsibilities between the Chairman of the Board and the Group General Manager and also provides checks and balances effect.

The role of the Chairman of the Board is taken by Dr. Lam Ko Yin, Colin while the role of the Group General Manager (whose status is equivalent to chief executive officer for the purpose of the Code but not otherwise) is taken by Ir. Dr. Ho Chi Shing, David. The key function of the Chairman is the management of the Board whereas the key function of the Group General Manager is the day-to-day management of the Company's business.

NON-EXECUTIVE DIRECTORS

The Company has complied with the requirements under Rules 3.10(1) and 3.10A of the Listing Rules of having at least three independent non-executive directors, representing one-third of the Board. One of the independent non-executive directors has the appropriate professional qualifications or accounting or related financial management expertise as required by Rule 3.10(2) of the Listing Rules.

All Non-executive Directors (including Independent Non-executive Directors) of the Company have been appointed for a specific term to 31 December 2019. They are eligible for re-appointment and subject to re-election on retirement by rotation in accordance with the Articles of Association.

CONFIRMATION OF INDEPENDENCE

The Nomination Committee and the Board noted that Mr. Ho Hau Chong, Norman is an executive director of Miramar Hotel and Investment Company, Limited ("Miramar") and a director of Wealth Team Development Limited ("Wealth Team"), which is an indirect subsidiary of HLD. Mr. Ho also has an indirect beneficial interests of 9.9% in all issued share capital of Wealth Team, but is not involved in the management and operation of Wealth Team. Miramar, Wealth Team and HLD are connected persons of the Company under the Listing Rules.

In view of the fact that Mr. Ho does not have any material interests in any principal business activity of and is not involved in any material business dealings with the Company, or any of its subsidiaries or with any connected persons of the Company, and that both the management and the operations of the Miramar Group and the Group are totally independent from each other, the Board in good faith considers that the independence of Mr. Ho as an Independent Non-executive Director of the Company is not in any way affected by his directorships in both Miramar and Wealth Team. Save as aforesaid, Mr. Ho has complied with other conditions set out in Rule 3.13 of the Listing Rules.

CONFIRMATION OF INDEPENDENCE (Continued)

The Board has received an annual confirmation of independence from each of Mr. Ho Hau Chong, Norman, Ms. Wong Yu Pok, Marina and Mr. Wu King Cheong, Independent Non-executive Directors of the Company, pursuant to Rule 3.13 of the Listing Rules.

All Independent Non-executive Directors also meet the guidelines for assessment of their independence as set out in Rule 3.13 of the Listing Rules. The Board has not been aware of the occurrence of any events which would cause it to believe that their independence has been impaired.

DIRECTORS' INDUCTION AND CONTINUOUS PROFESSIONAL DEVELOPMENT

On appointment to the Board, each Director receives comprehensive induction covering business operations, policy and procedures of the Company as well as the general, statutory and regulatory obligations of being a Director to ensure that he/she is sufficiently aware of his/her responsibilities under the Listing Rules and other relevant regulatory requirements.

The Directors are regularly briefed on the amendments to or updates on the relevant laws, rules and regulations. In addition, the Company has been encouraging the Directors and senior management to enroll in a wide range of professional development courses and seminars relating to the Listing Rules, the Companies Ordinance, Chapter 622 of the Laws of Hong Kong (the "Companies Ordinance") and corporate governance practices organised by professional bodies and institutions in Hong Kong so that they can continuously update and further improve their relevant knowledge and skills.

From time to time, Directors are provided with written reading materials to develop and refresh their professional skills; the Group also organises and arranges seminars on the latest development of applicable laws, rules and regulations for the Directors to assist them in discharging their duties. During the year, the Group arranged for the Directors and senior management to attend presentations of the distinguished speakers from the professional fields on topics of legal, commercial and information technology.

The Group continuously updates Directors on the latest developments regarding the Listing Rules and other applicable regulatory requirements, to ensure compliance and enhance their awareness of good corporate governance practices.

According to the records maintained by the Company, the Directors received the following training(s) in compliance with the requirement of the Code regarding the training records receiving on continuous professional development for the year ended 31 December 2018:

Board of Directors	Type of trainings relevant to corporate governance, regulatory updates and/or accounting, finance, tax and information technology
Executive Directors	
Dr. Lam Ko Yin, Colin *(Chairman of the Board)*	A, B
Mr. Li Ning	A, B
Non-executive Directors	
Mr. Au Siu Kee, Alexander	A, B
Mr. Lau Yum Chuen, Eddie	A, B
Dr. Lee Shau Kee	A, B
Mr. Wong Man Kong, Peter *(until 11 March 2019)*	A, B
Independent Non-executive Directors	
Mr. Ho Hau Chong, Norman	A, B
Ms. Wong Yu Pok, Marina	A, B
Mr. Wu King Cheong	A, B

A: attending seminars and/or presentations
B: reading materials

DIRECTORS' AND OFFICERS' INSURANCE

The Company has arranged appropriate directors' and officers' liability insurance coverage for the Directors and officers of the Group.

BOARD COMMITTEES

The Board has established three board committees, namely, the Audit Committee, the Remuneration Committee and the Nomination Committee to oversee particular aspects of the Company's affairs. Each committee has been delegated with certain functions of the Board.

Audit Committee

The Audit Committee of the Company has been established with written terms of reference setting out duties, responsibilities and authorities delegated to them by the Board. The Audit Committee comprises three Independent Non-executive Directors, namely, Mr. Ho Hau Chong, Norman (Chairman of the Audit Committee), Ms. Wong Yu Pok, Marina and Mr. Wu King Cheong.

Mr. Leung Hay Man was the member of the Audit Committee until October 2018. Save for the above, there is no change in the composition of the Audit Committee.

The terms of reference of the Audit Committee was reviewed by the Audit Committee and has also been updated in the year to enhance the procedures and align with regulatory requirements (including the amendments to the Code and the Listing Rules applicable from 1 January 2019), and recommended the same to the Board for approval. The revised terms of reference of the Audit Committee are available on the websites of the Company (www.hkf.com) and HKEx (www.hkexnews.hk) respectively.

The major duties and responsibilities of the Audit Committee are to review of the annual and interim results and oversight of the Company's financial reporting principles and practices and discuss with the external auditor on financial reporting and compliance; to recommend the appointment, re-appointment or removal of the external auditor, to determine their independence and objectivity as well as to review the scope of audit and the reporting obligation of the external auditor, to review the representation letter and engagement letter from the external auditor. The Audit Committee oversees the effectiveness of risk management and internal control systems of the Group including the adequacy of resources, staff qualifications, experience, programmes and budget of the accounting and reporting function and internal audit function of the Group. The external auditor was invited to attend the meetings of Audit Committee to present their reports and reviews for the interim and annual results of the Group. The Audit Committee has been delegated the corporate governance functions by the Board to review and monitor the corporate compliance within the Group.

During the year, two audit committee meetings were held and supplemented by circulation of resolutions in writing. During the meetings, the Audit Committee members reviewed the annual results and the financial statements for the year ended 31 December 2017 with recommendation to the Board for approval, the Annual Internal Audit Report, the continuous professional development training records of Directors and senior management, Continuing Connected Transactions, a review of the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting functions and internal audit function, the interim results for the six months ended 30 June 2018, the Interim Internal Audit Report, to approve the representation letter and the terms of engagement of the external auditor, the works of the Company's internal audit department, assessed the effectiveness of the Group's systems of risk management and internal controls.

The Audit Committee performed the corporate governance duties by reviewing the compliance with the Code and disclosure requirements as set out in this Corporate Governance Report. The Audit Committee members also acknowledged the amendments to the Code and the Listing Rules, thus the Audit Committee members reviewed and recommended the proposed amendments to the terms of reference of the Audit Committee, where appropriate.

As a recommended best practice under the Code, the Company has adopted a whistleblowing policy. The policy aims at encouraging and enabling employees of the Group at all levels and others to report violations or suspected violations and to raise serious concerns about possible improprieties in matters of financial reporting or other matters of the Group.

BOARD COMMITTEES (Continued)

Remuneration Committee

The Remuneration Committee of the Company has been established with written terms of reference setting out duties, responsibilities and authorities delegated to them by the Board. The Remuneration Committee comprises three Independent Non-executive Directors, namely, Mr. Wu King Cheong (Chairman of the Remuneration Committee), Mr. Ho Hau Chong, Norman and Ms. Wong Yu Pok, Marina and two Executive Directors namely Dr. Lam Ko Yin, Colin and Mr. Li Ning.

Mr. Leung Hay Man was the member of the Remuneration Committee until October 2018. Save for the above, there is no change in the composition of the Remuneration Committee.

The terms of reference of the Remuneration Committee are available on the websites of the Company (www.hkf.com) and HKEx (www.hkexnews.hk) respectively.

The Remuneration Committee has adopted the operation model where it performs to make recommendations to the Board on the Company's policy and structure for all Directors' and senior management's emolument and on the establishment of a formal and transparent procedure for developing emolument policy.

The Remuneration Committee is responsible for reviewing the policy and structure for the emolument of all Directors and senior management of the Company, assessing performance of executive directors and establishment of a formal and transparent procedure for developing policy on such emolument.

The emolument of the Directors and senior management is determined by reference to the skills, knowledge and the tasks assigned and also to the individual performance and the overall profitability, corporate goals and objectives of the Company as a whole. In determining the emolument package, the Committee will also obtain relevant information from external source and consider factors such as salaries paid by comparable companies, time commitment and responsibilities of the Directors, etc.

During the year, one remuneration committee meeting was held. During the meeting, the Remuneration Committee members reviewed and determined the emolument package of the staff including the senior management of the Company and made recommendations on the fees of all the Directors of the Company for the year ended 31 December 2018.

Nomination Committee

The Nomination Committee has been established with written terms of reference setting out duties, responsibilities and authorities delegated to them by the Board. The Nomination Committee comprises two Executive Directors namely Dr. Lam Ko Yin, Colin (Chairman of the Nomination Committee) and Mr. Li Ning and three Independent Non-executive Directors, namely, Mr. Ho Hau Chong, Norman, Ms. Wong Yu Pok, Marina and Mr. Wu King Cheong.

The terms of reference of the Nomination Committee was reviewed by the Nomination Committee and has also been updated in the year to enhance the procedures and align with regulatory requirements (including the amendments to the Code and Listing Rules applicable from 1 January 2019), and recommended the same to the Board for approval. The revised terms of reference of the Nomination Committee are available on the websites of the Company (www.hkf.com) and HKEx (www.hkexnews.hk) respectively.

The Nomination Committee is responsible for reviewing the structure, size, diversity and composition (including the skills, knowledge, experience and length of service) of the Board at least annually and make recommendations on any proposed changes to the Board to implement the Company's corporate strategy, with due regards to the Board Diversity Policy. It also identifies individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships and to assess the independence of independent non-executive directors and make recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors, in particular the chairman and the chief executive. The Nomination Committee shall consider the candidate from a wide range of backgrounds, on his/her merits and against objective criteria set out by the Board and taking into consideration of his/her time devoted to the position.

BOARD COMMITTEES (Continued)

Nomination Committee (Continued)

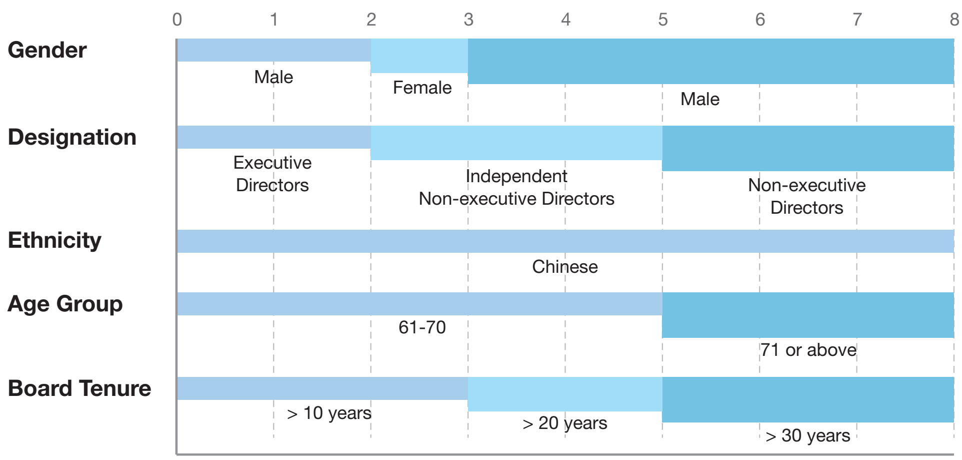
Mr. Leung Hay Man was the Independent Non-executive Director and served the Board until October 2018. Mr. Wong Man Kong, Peter was the Non-executive Director and served the Board until March 2019. Save for the above, there is no change in the composition of the Board.

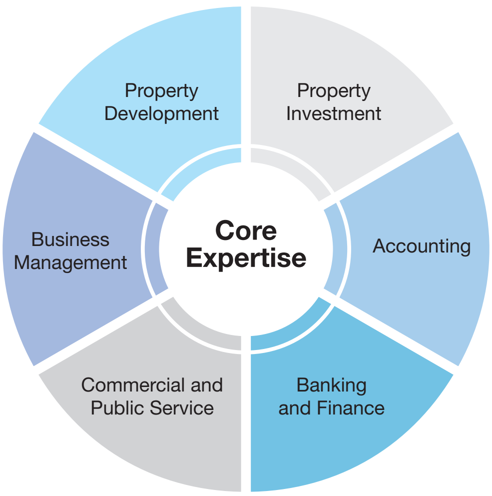
During the year, two nomination committee meetings were held. During the meetings, the Nomination Committee members reviewed the structure, size, diversity and composition (including the skills, knowledge, experience and length of service) of the Board, assessed the independence of Independent Non-executive Directors and reviewed the Independent Non-executive Directors' annual confirmations on their independence; reviewed the time required for a Director to perform his responsibilities; made recommendations to the Board for re-election of the retiring Directors at the annual general meeting of the Company held on 28 May 2018. The Nomination Committee members also reviewed and recommended the proposed amendments to the disclosure of corporate governance of the Company, where appropriate, to the terms of reference of the Nomination Committee, reviewed and recommended a revised and updated board diversity policy and formulated a nomination policy of the Company in December 2018, and recommended the same to the Board for approval.

The current composition of the Board provides a diversity of skills, gender, experience, and knowledge to the Company. The diversity profile of the Board as at 14 March 2019 is as follows:

Board Diversity

Number of Directors: 8





Note:

Multiple professional background and experience may apply to a Director.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the code for dealing in securities of the Company by the Directors. Having made specific enquiry, the Company confirmed that all Directors of the Company have complied with the required standard as set out in the Model Code throughout the year ended 31 December 2018.

The Company has also adopted the written guidelines on no less exacting terms than the Model Code for relevant employees (including employees of the Company or Directors or employees of its subsidiaries who, because of such office or employment, is likely to be in possession of unpublished inside information in relation to the Company or its securities), in respect of their dealings in the securities of the Company.

POLICY AND PROCEDURES ON DISCLOSURE OF INSIDE INFORMATION

The Board has adopted the Policy and Procedures on Disclosure of Inside Information which contains the guidelines to the directors, officers and relevant employees of the Company to ensure that the inside information of the Company is to be disseminated to public in an equal and timely manner in accordance with the applicable laws and regulations. The Policy and Procedures on Disclosure of Inside Information is available on the website of the Company (www.hkf.com).

COMPANY SECRETARY

Mr. Yuen Wai Kuen, Peter, the Company Secretary of the Company, is a full time employee of the Group and has day-to-day knowledge of the Company's affairs. During the year, the Company Secretary has complied with the relevant professional training requirement under Rule 3.29 of the Listing Rules. The biographical details of the Company Secretary is set out in the section headed "Directors' and Senior Management's Profile" on page 7 of this Annual Report.

ACCOUNTABILITY AND AUDIT

Financial Reporting

The Directors acknowledge their responsibility for preparing the financial statements of the Group for each financial period to give a true and fair view of the financial position and financial performance of the Group. In preparing the financial statements for the year ended 31 December 2018, the Directors have selected suitable accounting policies and applied them consistently, made judgements and estimates that are prudent, fair and reasonable, and have prepared the consolidated financial statements on a going concern basis.

The statement of the Auditor of the Company regarding their reporting responsibilities on the financial statements of the Group is set out in the Independent Auditor's Report on pages 73 to 78 of this Annual Report.

Auditor's Remuneration

Apart from carrying out the annual audit, KPMG, the Auditor of the Company also carried out the review on the interim report of the Company. For the year ended 31 December 2018, the fee of the annual audit amounted to HK$1,764,000 whereas the fee for the interim review amounted to HK$351,000. Save for the interim review, KPMG did not provide any substantial non-audit services to the Company.

Risk Management and Internal Controls

The Board acknowledges its responsibility for overseeing the risk management and internal control systems of the Group and reviewing the effectiveness at least annually through Audit Committee. The systems and internal controls can only provide reasonable and not absolute assurance against material misstatement or loss, as they are designed to manage, rather than eliminate the risk of failure to achieve business objectives.

The Internal Audit Department of the Company, which reports directly to the Audit Committee and is independent of the Company's daily operations, is responsible for conducting regular audits on the areas of financial, operational, and compliance controls and risk management functions.

ACCOUNTABILITY AND AUDIT (Continued)

Risk Management and Internal Controls (Continued)

The Group has established an organisational structure with defined levels of responsibility and reporting procedures. The Audit Committee supports the Board in design, implementation and monitoring of the risk management and internal control systems. The operating units of the Group are responsible for the identification, assessment and mitigation of risks at business unit level and across functional areas. The Internal Risk Management Team, composed of nominated department heads and executives, facilitates the implementation of the risk management framework. The Internal Audit Department assists the Audit Committee in the review of the effectiveness of the Group's risk management and internal control systems on an ongoing basis. The Directors, through the Audit Committee, are kept regularly apprised of significant risks that may impact on the Group's performance.

The process of risk management involves:

- understanding of organisational objectives;
- identifying the risk associated with achieving organisational objectives and assessing the likelihood and potential impact of particular risks;
- developing programmes to address the identified risks; and
- ongoing monitoring and evaluating the risks, internal control and the arrangements in place to address them.

The risk management of the Group combines a top-down strategic view with a complementary bottom-up operational process.

The Board, by the top-down approach, has a particular focus on determining the nature and extent of significant risks it is willing to take in achieving the strategic objectives of the Group. The Audit Committee supports the Board to review all significant risks in order to ensure that the activities of the business remain within agreed risk appetite tolerances.

The operating units of the Group are responsible for identifying their own risks and designing, implementing and monitoring the relevant risk management and internal control systems. The setting of business objectives and annual budgeting is one of their key control activities, which shall be refined to take into consideration risk factors. The operating units of the Group consult the Group General Manager on setting the business objectives which are pursuant to the Board's strategic objectives and are consistent with its risk appetite. The process involves the maintenance of risk assessment reports setting out particulars of material risks together with the control strategies as reported by the operating units of the Group. This bottom-up approach is embedded in the operations of the Group and complements the top-down strategic view by identifying the principal risks and ensuring the significant risks to be considered by the Board in determining the risk appetite.

The Internal Audit Department collects the risk assessment reports from the operating units of the Group and then compiles a risk register for review at the meeting of Internal Risk Management Team which is held at least 4 times a year (2 meetings are held before the holding of the Board Meeting to review the interim and annual results of the Group). The Internal Risk Management Team coordinates risk management activities and assesses the effectiveness of the related system of internal control in managing the significant risks, having regard, in particular, to any significant failings or weakness in internal control that have been reported.

The Internal Audit Department adopted a risk-based approach which included all significant risks in each year's annual audit plan and performed audits to evaluate the proper functioning of the risk management and internal control systems for the financial year ended 31 December 2018. It is intended to carry out this evaluation process on an ongoing basis. Key audit findings and recommendations have been shared with the Internal Risk Management Team. The Audit Committee, after reviewing and considering the risk management findings submitted by the Internal Audit Department, reported to the Board of the Company and confirmed to the Board that the risk management and internal control systems are effective and adequate.

ACCOUNTABILITY AND AUDIT (Continued)

Risk Management and Internal Controls (Continued)

The diagram below summarizes the complementary top-down and bottom-up aspects of the integrated approach of the Group to risk management.

"Top-down" Approach

Oversight, identification, assessment and mitigation of risk at corporate level

The Board

- Has overall responsibility for the Group's risk management and internal control systems
- Sets strategic objectives
- Reviews the effectiveness of the Group's risk management and internal control systems
- Monitors the nature and extent of risk exposure for the Group's significant risks
- Provides direction on the importance of risk management and risk management culture

Internal Risk Management Team

- Supports the Audit Committee in designing, implementing, and monitoring the Group's risk management and internal control systems
- Supports the Audit Committee in assessing the Group's risks and mitigating measures Company-wide

Audit Committee

- Supports the Board in monitoring risk exposure, design and operating effectiveness of the underlying risk management and internal control systems

Internal Audit

- Supports the Audit Committee in reviewing the effectiveness of the Group's risk management and internal control systems
- Considers risk assessment results, especially for all significant risks in annual audit planning
- Designs audit program with reference to the risk assessment results
- Reports key audit findings and recommendations to the Audit Committee and Internal Risk Management Team

Operational Level

- Sets business objectives
- Risk identification, assessment and mitigation performed across the business
- Risk management process and internal controls measures practised across business operations and functional areas.

"Bottom-up" Approach

Identification, assessment and mitigation of risk at business unit level and across functional areas

Certain significant risks such as business risk, financial risk, regulatory and compliance risk and operational risk have been identified during the year through the process of risk identification and assessment. Relevant control strategies and mitigation on significant risks have been reported to the Audit Committee. The Audit Committee and the Board were not aware of any areas of concern that would have a material impact on the financial position or results of operations of the Group and considered the risk management and internal control systems to be generally effective and adequate.

The Audit Committee has established and overseen a whistleblowing policy and set comprehensive procedures whereby employees can report any actual or suspected occurrence of improper conduct involving the Company, and for matters to be investigated and dealt with efficiently in an appropriate and transparent manner. The Audit Committee has designated the Internal Audit Manager to receive on his behalf any such reports, to oversee the conduct of subsequent investigations, and to provide information, including recommendations arising from any investigations to them for consideration by the Audit Committee.

ACCOUNTABILITY AND AUDIT (Continued)

Risk Management and Internal Controls (Continued)

Inside Information

With regard to procedures and internal controls for the handling and dissemination of inside information, the Company:

- is required to disclose inside information as soon as reasonably practicable in accordance with the Securities and Futures Ordinance and the Listing Rules.
- conducts its affairs with close regard to the "Guidelines on Disclosure of Inside Information" issued by the Securities and Futures Commission.
- has included in its Corporate Code of Conduct a strict prohibition on the unauthorized use of confidential or inside information.
- ensures, through its own internal reporting processes and the consideration of their outcome by senior management, the appropriate handling and dissemination of inside information.

ATTENDANCE RECORD OF DIRECTORS AND BOARD COMMITTEE MEMBERS

Details of the attendance of each director at the Board Meetings ("BM"), Audit Committee Meetings ("ACM"), Remuneration Committee Meeting ("RCM") and Nomination Committee Meetings ("NCM") during the year ended 31 December 2018 and Annual General Meeting held on 28 May 2018 ("2018 AGM") are set out in the following table:

	Number of Meetings attended/held				
Board of Directors	**BM**	**ACM**	**RCM**	**NCM**	**2018 AGM**
Executive Directors					
Dr. Lam Ko Yin, Colin *(Note 1)*	4/4	N/A	1/1	2/2	1/1
Mr. Li Ning *(Note 2)*	4/4	N/A	1/1	2/2	1/1
Non-executive Directors					
Mr. Au Siu Kee, Alexander	4/4	N/A	N/A	N/A	1/1
Mr. Lau Yum Chuen, Eddie	3/4	N/A	N/A	N/A	0/1
Dr. Lee Shau Kee	0/4	N/A	N/A	N/A	0/1
Mr. Wong Man Kong, Peter *(until 11 March 2019)*	3/4	N/A	N/A	N/A	1/1
Independent Non-executive Directors					
Mr. Ho Hau Chong, Norman *(Note 3)*	4/4	2/2	1/1	2/2	1/1
Mr. Leung Hay Man *(Note 4)* *(until 11 October 2018)*	0/4	0/2	0/1	N/A	0/1
Ms. Wong Yu Pok, Marina *(Note 5)*	3/4	2/2	1/1	1/2	1/1
Mr. Wu King Cheong *(Note 6)*	4/4	2/2	1/1	2/2	1/1

Notes:

1. *Chairman of the Board, Member of the Remuneration Committee and Chairman of the Nomination Committee*
2. *Member of the Remuneration Committee and the Nomination Committee*
3. *Chairman of the Audit Committee, Member of the Remuneration Committee and the Nomination Committee*
4. *Past Member of the Audit Committee and the Remuneration Committee*
5. *Member of the Audit Committee, the Remuneration Committee and the Nomination Committee*
6. *Member of the Audit Committee, Chairman of the Remuneration Committee and Member of the Nomination Committee*

COMMUNICATION WITH SHAREHOLDERS

The Company continues to pursue investor relations and communications with shareholders.

The Board has adopted a shareholders communication policy to set out the Company's procedures in providing the shareholders with prompt and equal access to information about the Company, in order to enable the shareholders to access the Company's overall performance, exercise their rights in an informed manner and engage actively with the Company.

The Company has established an effective communication system. The Company also maintains a website (www.hkf.com) through which the Company's updated financial information, announcements, circulars, notices of meetings, press releases and contact details can be accessed by the shareholders and investors. The Board believes that the Company's website provides an alternative means for the investing public to obtain information of the Company in a convenient and timely manner.

The annual general meeting also provides an important opportunity for constructive communication between the Board and the shareholders. The Chairman and the chairmen of the audit committee, remuneration committee and nomination committee as well as the Company's external auditor maintained an on-going dialogue with the shareholders and answered questions raised by the shareholders throughout the annual general meeting.

DIVIDEND POLICY

The Board has approved and adopted the Dividend Policy in December 2018 setting out the factors in determination of dividend payment of the Company according to the financial conditions in general, operating results, capital requirements, shareholders' equity, contractual restraints and other factors considered relevant by the Board. The Dividend Policy shall be reviewed periodically and submitted to the Board for approval if amendments are required. The Dividend Policy can be found and accessible on the website of the Company (www.hkf.com).

With respect to the Financial Statements and Dividends for the year ended 31 December 2018, please refer to the Report of the Directors set out on page 16 of this Annual Report.

SHAREHOLDERS' RIGHTS

Set out below are procedures by which shareholders may: (1) request to call a general meeting; (2) put forward enquiries to the Board; and (3) request to circulate a resolution for an annual general meeting. These procedures are generally governed by the provisions of the Articles of Association and applicable laws, rules and regulations, which prevail over what is stated in this section in case of inconsistencies.

1. Procedures by which shareholders may request to call a general meeting

Pursuant to the Articles of Association and Section 566 of the Companies Ordinance, shareholders representing at least 5% of the total voting rights of all the shareholders having a right to vote at general meetings of the Company can make a request to call a general meeting.

The request: (a) must state the general nature of the business to be dealt with at the general meeting; (b) may include the text of a resolution that may properly be moved and is intended to be moved at the general meeting; (c) may consist of several documents in like form; (d) may be sent to the Company Secretary in hard copy form to the registered office of the Company at 98 Tam Kon Shan Road, TYTL 102, Ngau Kok Wan, North Tsing Yi, New Territories, Hong Kong or in electronic form via e-mail at hkferry@hkf.com; and (e) must be authenticated by the shareholders making it.

SHAREHOLDERS' RIGHTS (Continued)

1. Procedures by which shareholders may request to call a general meeting (Continued)

Pursuant to Section 567 of the Companies Ordinance, the Directors must call a general meeting within 21 days after the date on which it becomes subject to the requirement and a general meeting so called must be held on a date not more than 28 days after the date of the notice convening a general meeting. If the Directors do not do so, the shareholders, or any of them representing more than one half of the total voting rights of all of them, may themselves call a general meeting pursuant to Section 568 of the Companies Ordinance, but the meeting must be called for a date not more than 3 months after the date on which the Directors become subject to the requirement to call a general meeting. Any reasonable expenses incurred by the shareholders by reason of the Board's failure to duly call the meeting shall be reimbursed to the shareholders by the Company.

2. Procedures for putting forward enquiries to the Board

Shareholders may put forward enquiries to the Board through the Company Secretary who will direct the enquiries to the Board for handling. The contact details of the Company Secretary are as follows:

The Company Secretary
Hong Kong Ferry (Holdings) Company Limited
98 Tam Kon Shan Road
TYTL 102
Ngau Kok Wan
North Tsing Yi
New Territories
Hong Kong

E-Mail:	hkferry@hkf.com
Telephone:	(852) 2394 4294
Facsimile:	(852) 2786 9001

3. Procedures to circulate a resolution for an annual general meeting

Pursuant to Section 615 of the Companies Ordinance, shareholders can make a request to circulate a proposed resolution that may properly be moved and is intended to be moved at an annual general meeting, accompanied by a statement of not more than 1,000 words with respect to the matter mentioned in the proposed resolution. The request must be made by: shareholders representing at least 2.5% of the total voting rights of all the shareholders who have a relevant right to vote on the resolution at the annual general meeting to which the request relates; or (ii) at least 50 shareholders who have a relevant right to vote on the resolution at the annual general meeting to which the request relates.

The request: (a) may be sent to the Company Secretary in hard copy form to the registered office of the Company at 98 Tam Kon Shan Road, TYTL 102, Ngau Kok Wan, North Tsing Yi, New Territories, Hong Kong or in electronic form via e-mail at hkferry@hkf.com; (b) must identify the resolution of which notice is to be given; (c) must be authenticated by the shareholders making it; and (d) must be received by the Company not later than 6 weeks before the annual general meeting to which the request relates; or if later, not later than the time at which notice is given of that annual general meeting.

PROCEDURES FOR SHAREHOLDERS TO PROPOSE A PERSON FOR ELECTION AS A DIRECTOR

According to the Articles of Association, a notice signed by a shareholder of his/her intention to propose a person for election and also a notice signed by the person (the "Candidate") to be proposed of his/her willingness to be elected shall be lodged at the registered office of the Company no earlier than the day after the despatch of the notice of the general meeting appointed for such election and no later than 7 days prior to the date of such general meeting.

The Candidate is required to provide his/her biographical details set out under Rule 13.51(2) of the Listing Rules.

The Nomination Committee, where applicable, will review and make recommendations to the Board on the selection of any individuals nominated for directorships in accordance with the terms of reference of the Nomination Committee.

The Company will, where appropriate, issue a supplementary circular which shall include the name of the Candidate together with his/her biographical details set out in Rule 13.51(2) of the Listing Rules, to the shareholders for them to make decision on their election at a general meeting.

INVESTOR RELATIONS

During the year ended 31 December 2018, there has not been any change in the Company's constitutional documents.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

MESSAGE FROM THE CHAIRMAN

I am delighted to present this Environmental, Social and Governance ("ESG") Report for Hong Kong Ferry (Holdings) Company Limited (the "Company") and its subsidiaries ("Hong Kong Ferry Group" or the "Group") in 2018. It showcases Hong Kong Ferry Group's efforts to integrate sustainable strategies into our business as part of our long-standing emphasis on continuously enhancing our ESG performance as we progress through our sustainability and Corporate Social Responsibility ("CSR") journey.

Since our establishment in 1923, Hong Kong Ferry Group's "people-first" principles held strong as we flourished and expanded our property development and property investment, ferry and shipyard operations in Hong Kong. Our enduring sustainability values drive us to pursue high standards of integrity and accountability when conducting business, from providing safe and reliable transportation services for our customers, to designing and developing properties to fulfil the needs of the people of Hong Kong.

Guided by our people-oriented culture and core sustainability values, we are constantly in search of opportunities to further enhance our ESG performance through technological upgrades and resource optimisation. Keeping our principle "Loving Hong Kong and the Harbour" in mind, the Company's employees work collectively to execute on our sustainability strategy through continuous caring, innovation and enrichment. Going forward, we will continue to enrich our sustainability strategy and implement ESG initiatives to achieve our objectives.

In the coming years, I trust that our approach to sustainable development will bring positive effects on the community where we operate as we tackle future challenges and capitalise on business opportunities. We will continue to grow our business and work towards a sustainable future.

Dr. Lam Ko Yin, Colin
Chairman

1. ABOUT THIS ESG REPORT

a. Reporting Standard and Scope

This ESG report has been prepared in accordance with the requirements of the ESG Reporting Guide, Appendix 27 ("ESG Reporting Guide") to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited issued by Hong Kong Exchanges and Clearing Limited ("HKEx"). It provides an overview of Hong Kong Ferry Group's ESG policies and management approach and presents its sustainability initiatives and performance for the period from 1 January 2018 to 31 December 2018 (the "reporting year"). The scope of this ESG Report includes property development, property investment, ferry and shipyard operations, and related services. To provide an inclusive representation of Hong Kong Ferry Group's operations, the following companies are included in this ESG Report:

Business Units	Company Name
Principal Office	Hong Kong Ferry (Holdings) Company Limited
Property Development	Win Standard Enterprises Limited World Fame Shipping Limited
Property Investment	Jet Legend Limited Well Dynamic Limited World Light Limited Lenfield Limited HKF Property Investment Limited
Shipyard Operation	The Hong Kong Shipyard Limited
Dangerous Goods Vehicular Ferry Services	The Hongkong and Yaumati Ferry Company Limited
Harbour Cruise - Bauhinia	Galaxy Hotel Management Company Limited

To aid readers in navigating the report content, a HKEx ESG Reporting Guide content index is available on pages 69 to 72.

b. Stakeholder Engagement

In preparation for this ESG Report, an independent consultant was commissioned to develop and implement a comprehensive stakeholder engagement exercise with the aim of understanding stakeholders' views on our initiatives, performance and future strategies in relation to ESG issues. This year, we invited external and internal stakeholders of Hong Kong Ferry Group, including clients/customers, suppliers, charity/non-governmental organisations ("NGOs") and employees, to respond to our online survey. In addition, in-depth interviews and focus group discussions were conducted with our senior management and staff from various business units of Hong Kong Ferry Group in 2017. During the two-way engagement exercise, stakeholders expressed their views and expectations on Hong Kong Ferry Group's ESG performance which is key for determining our future sustainability approach.

1. ABOUT THIS ESG REPORT (Continued)

c. Materiality Assessment

While the ESG Reporting Guide specifies a wide range of aspects, they may not all be relevant to the operations of Hong Kong Ferry Group. A three-step materiality assessment was conducted by the independent consultant to determine material ESG issues for disclosure in the ESG Report.

Step 1 — Identification

- The preliminary step was to identify and review the ESG disclosures of Hong Kong Ferry Group's local peers which gave an indication of the most relevant ESG issues for Hong Kong Ferry Group.
- External and internal stakeholders were also invited to complete an online survey to rank the importance of ESG topics to themselves and to Hong Kong Ferry Group, respectively.

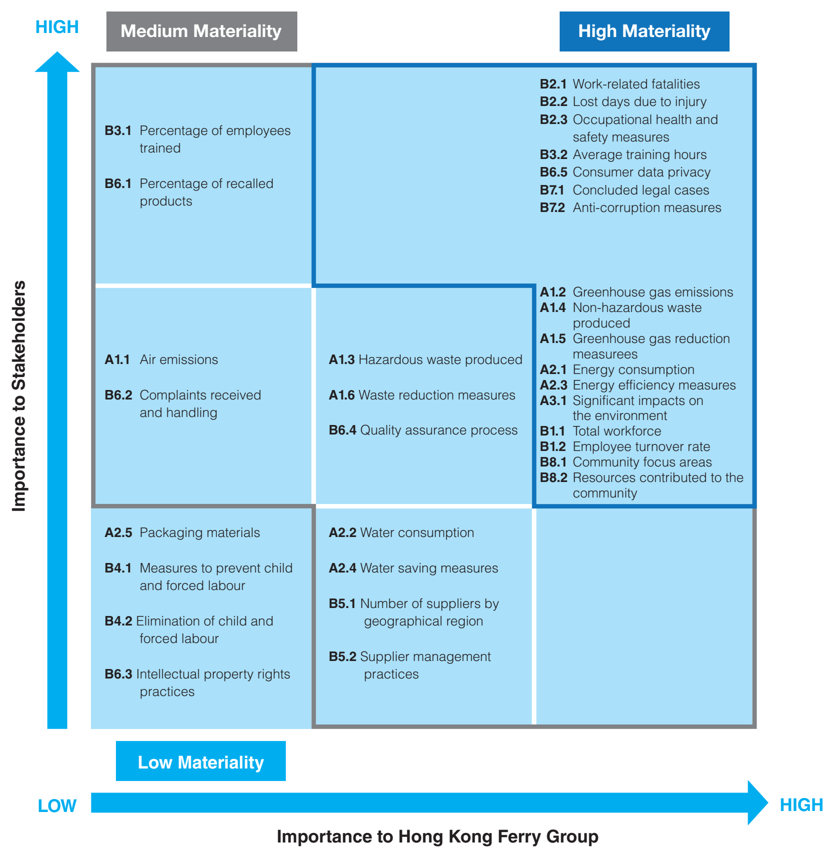
Step 2 — Prioritisation

- Results from the peer benchmarking exercise and online survey were consolidated to develop a prioritised list of potential material ESG issues for Hong Kong Ferry Group.

Step 3 — Validation of Material Issues

- The Company's senior management convened a meeting with the independent consultant to confirm a finalised list of material Key Performance Indicators ("KPIs") for disclosure.

The chart below shows the 32 HKEx KPIs mapped according to their importance to Hong Kong Ferry Group and our stakeholders. The 28 HKEx KPIs which were determined to be of "high" and "medium" materiality are included in this ESG Report.



2. AWARDS, CERTIFICATES AND MEMBERSHIPS IN 2018

Awards/Certificates	Awarding Bodies/Issuing Organisations
BOCHK Corporate Environmental Leadership Awards 2017 (The Hongkong and Yaumati Ferry Company Limited)	Federation of Hong Kong Industries and Bank of China (Hong Kong) Limited
BOCHK Corporate Environmental Leadership Awards 2017 (Green Code Plaza)	Federation of Hong Kong Industries and Bank of China (Hong Kong) Limited
BOCHK Corporate Environmental Leadership Awards 2017 (The Hong Kong Shipyard Limited)	Federation of Hong Kong Industries and Bank of China (Hong Kong) Limited
Charter on External Lighting Platinum Award – Green Code Plaza	Environment Bureau, HKSAR
Charter on External Lighting Platinum Award – Metro Harbour Plaza	Environment Bureau, HKSAR
CSR Recognition Scheme Industry Cares 2018 – Caring Certificate (Enterprise Group)	Federation of Hong Kong Industries
Family-Friendly Employers Award Scheme – Family-Friendly Employers and Special Mention (Gold) Award (2018)	Home Affairs Bureau and Family Council
Good MPF Employer and Support for MPF Management Award 2017/18	Mandatory Provident Fund Schemes Authority
Heart To Heart Company 2005–2019	The Hong Kong Federation of Youth Groups
2004–2019 Hong Kong Q-Mark for Harbour Cruise – Bauhinia	The Hong Kong Q-Mark Council and The Federation of Hong Kong Industries
Indoor Air Quality Certificate (Good Class) (2018–2019) – HKF office	Environmental Protection Department, HKSAR
Indoor Air Quality Certificate (Good Class) (2018–2019) – Metro Habour Plaza	Environmental Protection Department, HKSAR
ISO 9001:2015 Quality Management System Certification for Harbour Cruise - Bauhinia	Intertek

2. AWARDS, CERTIFICATES AND MEMBERSHIPS IN 2018 (Continued)

Awards/Certificates	Awarding Bodies/Issuing Organisations
ISO 9001:2015 Quality Management System Certification for The Hongkong and Yaumati Ferry Company Limited	Lloyd's Register Quality Assurance Limited
ISO 9001:2015 Quality Management System Certification for The Hong Kong Shipyard Limited	Lloyd's Register Quality Assurance, Inc. and Lloyd's Register Quality Assurance Limited
Logo of "Caring Company 15 years+"	The Hong Kong Council of Social Service
Logo of "Happy Company 2018"	The Promoting Happiness Index Foundation and Hong Kong Productivity Council
Logo of "The 9th Hong Kong Outstanding Corporate Citizenship"	Hong Kong Productivity Council and Committee on the Promotion of Civic Education
Manpower Developer 1st Award (2010–20)	Employees Retraining Board
Manpower Developer Grand Prize Award (2016–18)	Employees Retraining Board
Partner Employer Award 2018/19	The Hong Kong General Chamber of Small and Medium Business
Program on Source Separation of Commercial and Industrial Waste Certificate – Green Code Plaza	Environmental Protection Department, HKSAR
Program on Source Separation of Commercial and Industrial Waste Certificate – Metro Harbour Plaza	Environmental Protection Department, HKSAR
Social Capital Builder Logo Award 2018–20	Labour and Welfare Bureau and Community Investment and Inclusion Fund

Memberships/Charters	Organisations
Corporate Member	The Institute of Purchasing & Supply of Hong Kong
Corporate Member	International Food Safety Association
Green Cross Group Member	Occupational Safety & Health Council
Member	Society of Hong Kong Real Estate Agents Ltd.
Member	Hong Kong Federation of Restaurants & Related Trades Limited
Organisation Member	The Chartered Institute of Logistics and Transport

2. AWARDS, CERTIFICATES AND MEMBERSHIPS IN 2018 (Continued)

2. AWARDS, CERTIFICATES AND MEMBERSHIPS IN 2018 (Continued)


2017-18
積金好僱主
Good MPF Employer
Hong Kong Ferry (Holdings) Co Ltd
香港小輪(集團)有限公司
Good MPF Employer
「積金好僱主」
Support for MPF Management Award


Indoor Air Quality Certificate
(Good Class)
室內空氣質素檢定證書（良好級）
The Hong Kong Shipyard Administration Building


This certificate is presented to
茲此證書予
The Hongkong & Yaumati Ferry Co. Ltd.
香港油麻地小輪船有限公司
2018.05.31


國際食品安全協會
International Food Safety Association
Membership No: 608
This is to certify that
Hong Kong Ferry (Holdings) Co. Ltd.
has been accepted as
Corporate Member of
International Food Safety Association
Mrs. Becky Cheung
Chairperson
13th November 2018


Membership Certificate 會員證書
(Expiry Date: 30 September, 2018)
HYFCO Estate Management & Agency Ltd.
Membership Number 10121
30 October, 2017


This certificate is presented to
茲此證書予
The Hong Kong Shipyard Ltd
香港船廠有限公司
2018.05.31


香港餐飲聯業協會有限公司
會員證書
Certificate of Membership
茲明
This is certify that
佳力酒店管理有限公司-洋紫荊維港遊
為本協會會員
is admitted to membership of the Association as Member
本協會特此蓋印以茲證明
Given under seal of the Association
李遠康 主席
Mr. Lee Yuen Hong Chairman
二零一八年二月十三日
13th of February, 2018


職業安全健康局
Occupational Safety & Health Council
茲証明
This is to Certify that
香港船廠有限公司
The Hong Kong Shipyard Ltd
為綠十字會會員
is registered as a Green Cross Group Member
會員編號 Membership Number : 98290
有效期至 Expiry Date : 31 October 2020


intertek
CERTIFICATE OF REGISTRATION
Harbour Criuse-Bauhinia (Member of Galaxy Hotel Management Co., Ltd.)
ISO 9001:2015

3. SUSTAINABILITY GOVERNANCE

A well-established governance structure is essential in managing ESG-related risks and for enhancing performance along our sustainability journey. The ESG working group comprising representatives from various business units was established to formulate a sustainability strategy for Hong Kong Ferry Group. It provides strategic oversight on our ESG issues and is responsible for planning and supervising our various ESG initiatives. To effectively manage our ESG performance, regular internal meetings were held in 2018 to discuss ESG topics and ensure that business practices align with our sustainability values. To evaluate the effectiveness of our ESG performance, the progress of our sustainability programmes and performance are reported to the Board for review.

Sustainability is integrated into our risk management framework to identify and review ESG-related risks across all business units. The risk management of the Group combines a top-down strategic view with a complementary bottom-up process. ESG-related risks such as staff recruitment challenges and compliance with environmental laws and regulations are regularly reviewed, evaluated and monitored in accordance with our risk management process and internal control systems, and are reported to the Board. Please refer to the "Risk Management and Internal Controls" sub-section in the "Corporate Governance Report" on pages 35 to 38 of our Annual Report 2018 for more details.

4. OUR COMMITMENT TO ENVIRONMENTAL STEWARDSHIP

Steered by our spirit of environmental stewardship, Hong Kong Ferry Group has made continual efforts to enhance our sustainability performance over time. As set out in our well-defined environmental policies, we are committed to minimising any negative impacts arising from our operational processes and raising environmental awareness among our staff and the society. To this end, we embrace efficiency, technology and innovation throughout our operations and actively support environmental campaigns launched by the Government of the Hong Kong Special Administrative Region (the "Government") and NGOs.

During the reporting year, we complied with all applicable legal and regulatory requirements regarding environmental protection and there were no non-compliance cases relating to air and greenhouse gas ("GHG") emissions, discharges into water and land, and the generation of hazardous and non-hazardous wastes.

a. Energy and Climate Change Mitigation

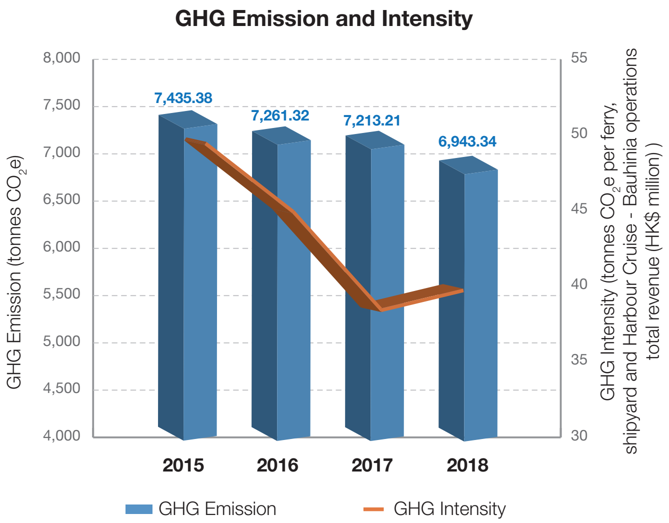
As an environmentally responsible company, we aim to manage our operations in an energy efficient manner to echo calls from the Hong Kong Government for a climate resilient future. Through technological upgrades and energy optimisation, we work to contribute to the local carbon reduction target[1] set by the Hong Kong Government in Hong Kong's Climate Action Plan 2030+. Since 2011, we have been partnering with external consultants through our Energy and Carbon Management Programme to perform annual carbon audits, set strategies and implement measures to reduce GHG emissions at our two most energy-intensive subsidiaries, namely, The Hong Kong Shipyard Limited and The Hongkong and Yaumati Ferry Company Limited. Since energy consumption in our buildings and offices accounts for a significant proportion of our GHG emissions, we have taken proactive measures to monitor and control our energy use and emissions at our Principal Office, subsidiaries' offices and our managed properties throughout the years.

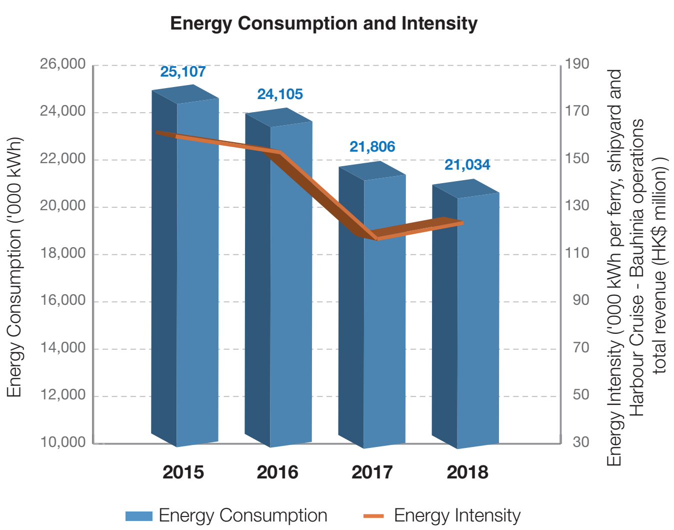
[1] Reduction of carbon intensity by 65% to 70% by 2030, using 2005 as the baseline.

4. OUR COMMITMENT TO ENVIRONMENTAL STEWARDSHIP (Continued)

a. Energy and Climate Change Mitigation (Continued)

Driven to further enhance our performance this year, we seized opportunities to improve energy efficiency at our Principal Office. For instance, we carried out the installation of LED light fixtures in place of old fluorescent lights, and upgraded our lift to further optimise energy efficiency. To monitor and assess the effectiveness of our energy saving measures we undertook an energy audit at our Principle Office and the shipyard this year and determined that we were able to reduce electricity consumption by around 15%. At our property development and investment operations, we follow the requirements of the Performance-based Building Energy Code published by the Electrical and Mechanical Services Department ("EMSD"). To further enhance performance, we incorporated sustainability features into the design and construction phases of our projects and conducted energy-simulation modelling studies to identify the most optimal energy-saving approaches. In addition, Green Code Plaza and Metro Harbour Plaza have pledged to support the Hong Kong Government's Energy Saving Charter 2018 to encourage community-wide participation in saving energy. As a result of our energy reduction efforts and commitments made in the Energy Saving Charter 2018, Green Code Plaza and Metro Harbour Plaza have both received a Platinum Award from the Charter on External Light.





4. OUR COMMITMENT TO ENVIRONMENTAL STEWARDSHIP (Continued)

a. Energy and Climate Change Mitigation (Continued)

Our ongoing commitment to enhancing our performance combined with the implementation of new initiatives during the reporting year resulted in decreases in the Group's overall energy intensity and GHG intensity by 3.5% and 3.7%, respectively, as compared to 2017. Moving forward, we will continue to identify energy-saving opportunities to further augment our sustainability performance.

b. Air Quality Improvement

Fulfilling our "Loving Hong Kong and the Harbour" core value means making every effort to maintain the air quality of the region and the shared community around it. Recognising our operational impacts associated with air emissions, we go beyond the statutory requirements and adopt appropriate technologies to enhance fuel efficiency and reduce emissions. We have been supporting the Hong Kong Government to enhance local air quality for more than 10 years. As early as 2007, The Hongkong and Yaumati Ferry Company Limited participated in a trial of ultra-low sulphur diesel[2] on a voluntary basis, 7 years before the mandatory cap on sulphur content of 0.05% in diesel. To reduce our key air pollutant emissions including nitrogen oxides ("NOx"), sulphur oxides ("SOx") and particulate matter ("PM"), we launched a replacement programme for all generators and engines on-board our ferries. Although the programme was completed in 2016 with a total of 13 generators and 10 engines replaced with more environmentally-friendly alternatives, we still maintain an on-going exploration of ways to optimise the environmental performance of our vessels. Additionally, looking for opportunities to extend our air quality initiatives beyond the harbour, we upgraded a road vehicle to the new EURO VI emission standard this year for better roadside air quality.

c. Water Conservation

Recognising fresh water as a precious and limited natural resource, we endeavour to implement water-efficient measures in our operations. As our daily cleaning procedures at our shipyard have the potential to be water-intensive, we have provided all our workers with proper training on waterjet applications to enhance water efficiency. Moreover, we installed automatic water faucets and water-saving aerators in the restrooms at the Principal Office and the Harbour Cruise - Bauhinia.

[2] With a maximum sulphur content of 0.005%

4. OUR COMMITMENT TO ENVIRONMENTAL STEWARDSHIP (Continued)

c. Water Conservation (Continued)

Case Study - Our second Rainwater Harvester

In Hong Kong, the abundance of rainfall has favoured our greater utilisation of rainwater. Two years ago we installed a rainwater harvesting system at the shipyard with great success collecting 45 cubic meters of water for cleaning and irrigation purposes in 2017 and 2018. As a progressive step, we installed another onsite rainwater harvester in the shipyard area during the reporting year under the guidance of "Technical Specifications on Grey Water Reuse and Rainwater Harvesting" issued by the Water Supplies Department. This rainwater harvesting tank has the capacity to collect a total of 30 cubic meters of rainwater annually, which will be used for vehicle washing and floor cleaning. Altogether, these rainwater harvesters serve as a water saving tool to further optimise water usage efficiency.

d. Waste and Resources Management

Proper waste management is essential to alleviate the burden on our landfills and enhance resource efficiency. This year, we continue our efforts in waste reduction and recycling throughout our operations. At the shipyard, designated contractors handle our scrap metals classifying and separating them into steel, aluminium and bronze alloys which are then further processed and reused. We are highly conscious of the production of waste oil from our use of cranes, forklifts and emergency generator. To minimise potential environmental impacts, we have appointed licensed collectors to gather and convert the waste oil into high-quality green lubricants. In 2018, we recycled a total of 4,600 litres of waste diesel oil.

At Harbour Cruise - Bauhinia, we implemented a number of initiatives to manage our resources responsibly. For instance, a green menu with fewer courses is available in order to reduce food waste. An onshore sewage system is also in place at the ferry pier, which diverted 10,530 tonnes of wastewater from being discharged directly into the harbour during the reporting year. At our property development and investment operations, Green Code Plaza received a certificate of recognition for maintaining sound waste recycling practices and fulfilling the requirements for the Programme on Source Separation of Commercial and Industrial Waste.

Recycled Aluminium	Recycled Zinc Alloy	Recycled Steel	Recycled Bronze
666kg	1,200kg	4,400kg	278kg

4. OUR COMMITMENT TO ENVIRONMENTAL STEWARDSHIP (Continued)

e. Environmental Awareness

We believe fostering behavioural change is conducive to sustainable development. To build a lasting green culture within the Group, we have formulated relevant environmental policies specifying employees' responsibility for environmental protection. As a signatory of the Energy Saving Charter 2018 launched by the EMSD, we encourage our employees to conserve energy through internal notices and green tips. Green initiatives and campaigns are organised regularly to further promote environmental stewardship among our employees, including "Earth Hour 2018", "No Air Con Night 2018" and "Lai-See Packet Recycle and Reuse Programme".

In parallel with our internal efforts, we are keen to spread positive messages to the wider community. Apart from its leisure purpose, our Harbour Cruise - Bauhinia operation also serves to educate the public and enhance their awareness of harbour protection.

5. OUR GREATEST ASSET – HUMAN CAPITAL

We believe that our employees are the cornerstone of our business, therefore we are dedicated to promoting staff well-being and professional development and providing a positive, respectful and collaborative work environment to enable all employees to reach their full potential.

a. Working Conditions

We work to build a strong and competent workforce where our employees feel supported, appreciated and motivated at work. Our employees are rewarded with competitive remuneration and compensation packages as well as attractive fringe benefits which include maternity and paternity leave and medical health insurance coverage which also extends to their families. This year, we have continued the "Exclusive Staff Rewards" Campaign to recognise our staff's hard work and devotion.

A harmonious and caring workplace allows our employees to excel in their work. Hong Kong Ferry Group embraces diversity and is committed to providing a fair and safe work environment with equal opportunities for all staff regardless of nationality, race, religion, gender, age or family status. Each of our employees is a valuable asset, and we ensure that they are compensated with competitive salaries and benefits commensurate to their work experience and job requirements. Annual appraisals are conducted to provide employees with the chance to discuss their work performance, objectives and opportunities for career development. During the reporting year, there were no reported cases of non-compliance with the labour regulations of Hong Kong.

We believe that the health and well-being of our employees is essential in creating a positive and caring workplace. We offer a five-day work week for office-based employees, while flexible work hour arrangements are available to our onsite workforce. To accommodate the diverse interests of our employees and enhance communications between departments, we regularly organise company-wide staff recreational and team bonding activities. A staff leisure corner is also provided as a relaxation zone separate from their workspace.

5. OUR GREATEST ASSET – HUMAN CAPITAL (Continued)

a. Working Conditions (Continued)

Case Study - "Exclusive Staff Rewards" Campaign

Due to the success of our "Exclusive Staff Rewards" campaign launched in 2017, we had decided to continue with the campaign this year as part of our employee engagement activities. To show appreciation to our staff, we hold a lucky draw every two months to provide the winners with a satisfying and unforgettable experience. Highlights of the activities and reward giveaways are shown below:

Sports Equipment Cash Coupon Giveaway for the World Cup

"I was able to buy a new pair of sports shoes for my daughter with the cash coupons from the lucky draw. My daughter and I were delighted to receive such a practical gift."

Ms. Chung Lai Chun, Administration Department (July 2018)

Lucky bag (福袋) Giveaway for Mid-Autumn Festival

"Every time there is a lucky draw, I always hoped to hear my name called, and now my wish finally came true! I was ecstatic to be able to share the lucky bag (福袋) with my family, we all had a wonderful time."

Ms. Sandy Ip, Accounts Department (September 2018)

b. Staff Training and Development

In a constantly changing business environment, it is essential to equip our staff with up-to-date knowledge and skill sets to remain competitive in the industry. To suit the different needs of our staff members across business units, we identify and arrange tailor-made training sessions on a range of topics. We encourage our experienced and qualified employees to deliver internal training courses for their respective departments. To introduce new talent into our shipyard workshop and ferry operations, we continue to provide apprenticeship and engineer training programmes to new joiners. Furthermore, Hong Kong Ferry Group believes that a well-established quality management system will allow us to deliver excellent products and services to customers, therefore we arranged ISO management system training for staff in shipyard, ferry and Harbour Cruise - Bauhinia operations in 2018.

5. OUR GREATEST ASSET – HUMAN CAPITAL (Continued)

b. Staff Training and Development (Continued)

For external training, we support our employees who wish to pursue further studies and training to enhance their work performance and achieve their full potential. For instance, a professional development credit system is in place for employees to attend seminars and trainings related to their disciplines. Shipyard technicians and crew members on vessels are encouraged to participate in external courses for obtaining work-related professional licenses, permits and qualifications. Employees who have completed one year of service with satisfactory performance are eligible for sponsorship in external training courses for professional development. During the reporting year, our Company's employees received total approximately 5,472 training hours.

5,472 hours

Total Training Hours Received By Employees

c. Occupational Health and Safety

Ensuring workplace health and safety is Hong Kong Ferry Group's foremost concern. Our Safety Policy guides the management and mitigation of occupational health and safety risks across all our business units to provide a safe and healthy work environment for our employees, contractors and visitors. To prevent alcohol and drug consumption at the workplace, we introduced our Substance Use Policy which applies to all our employees, contractors and suppliers who perform duties at the shipyard. Employees are regularly reminded to follow the Safety Policy and Substance Use Policy with any violations possibly resulting in disciplinary action up to and including employment termination. During the reporting year, there were no reported cases of non-compliance with applicable occupational health and safety laws and regulations in Hong Kong that have a significant impact on the Group.

At the shipyard operations, a Safety Committee with strong roles and duties was established to provide assurance on the adequacy of safety management and risk control. Our Safety Officer and Supervisor are responsible for implementing safety management systems, performing regular safety inspections and monitoring activities in the shipyard to ensure all employees are working safely and are equipped with appropriate safety gear and personal protection equipment. A safety inspection report is prepared on a weekly basis to identify areas with potential safety hazards for immediate rectification and recommendations for future safety best practices. Through our daily morning safety sessions, we thoroughly remind our employees of safety measures and enhance their safety awareness. A Safety Quiz Competition is organised annually to raise shipyard employees' awareness of occupational health and safety and cultivate a safety culture.

5. OUR GREATEST ASSET – HUMAN CAPITAL (Continued)

c. Occupational Health and Safety (Continued)

Implementing precautionary measures against health and safety hazards is essential to effectively manage unexpected health and safety incidents. We work to remind our staff of the relevant procedures in place through periodic drills. At the shipyard and the Principle Office, fire drills are conducted annually to refresh our employees on safety and emergency evacuation procedures. To ensure our crew members are fully familiarised with emergency procedures, emergency drills including fire and major injury incidents are conducted twice a month on the vessels and at the piers for Dangerous Goods Vehicular Ferry Services, whilst emergency drills are conducted quarterly at Harbour Cruise - Bauhinia. Collaboration between business units is critical to achieving safety excellence. As such, joint fire drills are arranged quarterly to exchange knowledge between the Dangerous Goods Vehicular Ferry Services and Harbour Cruise - Bauhinia, and to develop coordination for any unforeseeable incidents.

Joint fire drill exercise organised by Dangerous Goods Vehicular Ferry Services and Harbour Cruise - Bauhinia

We believe employee well-being leads to a more productive and engaged workforce. Our Group medical insurance plan provides outpatient and hospitalisation coverage for both our staff and their families. Additional insurance plans such as self-subscribed medical top-up insurance and dental plans are also provided as voluntary options for employees. To support our employees in maintaining their health and wellness and in preventing diseases, we offer regular health check-up and vaccination subsidies. In addition, frontline and operational staff members at the shipyard, cruise restaurant and kitchen and ferry operations are eligible for free medical check-up once every two years. These occupational health initiatives may help to educate, motivate and inspire our employees to get more involved in their own wellness journey and be aware of any health alerts in their lives.

5. OUR GREATEST ASSET – HUMAN CAPITAL (Continued)

d. Anti-Corruption

We are committed to maintaining high ethical standards and business integrity in our operations. We adopt a zero-tolerance approach to corruption or malpractice of any form including bribery, money laundering, extortion and fraud. Our Code of Conduct details the requirements of professional behaviour in which all staff are required to comply. During the reporting year, there were no confirmed cases of non-compliance with the anti-corruption regulations of Hong Kong.

To update our employees of the latest developments in anti-corruption enforcement, we arrange biennial seminars and talks with the Independent Commission Against Corruption (the "ICAC") for relevant staff members, especially for business units that may be exposed to higher corruption risks, such as purchasing and procurement, tendering, sales and marketing. As part of the commitment, representatives from the ICAC were invited to deliver two rounds of seminars to refresh best practice procedures and knowledge on anti-corruption in 2018.

In support of our policies on ethical behaviours, the Company's whistle-blowing policy provides channels for our employees at all levels to report violations or suspected violations and raise concerns of any improper behaviours. To encourage and assist whistle-blowers to raise grievances without fear of reprisal, all whistle-blowing disclosures are treated confidentially and submitted to the Internal Audit Manager for further investigation. Furthermore, our whistle-blowing policy is regularly reviewed by the Internal Audit Manager to evaluate its effectiveness. Please refer to the sub-section of "Risk Management and Internal Controls" in the "Corporate Governance Report" on pages 35 to 38 of this Annual Report for more details.

6. OUR CONTRIBUTION TO THE COMMUNITY

Hong Kong Ferry Group holds a people-oriented company culture which values stakeholder interests and focuses on providing excellent quality services, opportunities and support for our customers, employees and the wider Hong Kong community.

a. Hong Kong Ferry Group and the Hong Kong Community

Guided by our Board of Directors and supported by our employees, Hong Kong Ferry Group's continuous efforts in implementing CSR initiatives throughout the years have strengthened the relationship between Hong Kong Ferry Group and the community. Three principles guide our CSR initiatives and corporate culture: love Hong Kong, love Victoria Harbour, and care for the people.

Caring for our community has been a core value of Hong Kong Ferry Group since our founding in 1923. For more than 60 years, our cross-harbour vehicular ferry services played an important part in supporting the economic development of Hong Kong by providing transportation services to commuters between Hong Kong Island and the Kowloon peninsula until its suspension in 1998. Nowadays, we continue to hold our signature "Classic Vehicular Ferry Ride" (「懷舊汽車渡輪遊」) to remind the community of this commute. Over a thousand participants joined, some of whom drove their private cars onto our ferries. For many of the participants, this was their first experience of this unique journey previously shared in the stories of their elders. Through this event, we hope to preserve the collective memories and experiences of the Hong Kong community, and allow the new generations to also have a taste of old Hong Kong.

Classic Vehicular Ferry Ride

Through the years, we have proactively upgraded our ferry equipment and operating systems with the aim of further elevating our service safety as well as our environmental and social responsibility. For instance, in the 1980's and 1990's we installed radar detectors and Automatic Identification Systems on our vessels to raise our safety standards beyond the Government requirements of the time. We also commonly go beyond statutory requirements to adopt environmentally-friendly measures. For example, our policy of switching off ferry engines when stationed at the pier for a prolonged period was implemented in 1980s and 1990s long before the practice became mandatory. In recent years, Hong Kong Ferry Group has also leveraged our unique resources to deliver CSR programmes.

6. OUR CONTRIBUTION TO THE COMMUNITY (Continued)

b. Caring for the Community

Our corporate social responsibility initiatives focus on serving underprivileged families, children and the elderly as well as providing a platform for learning and exchanging knowledge.

"Loving Hong Kong Loving Home"

We recognise that creating a caring environment is essential for nurturing a supportive community. With this mission in mind, Harbour Cruise - Bauhinia utilises their fleet to organise harbour cruises for underprivileged groups. We have collaborated with Wofoo Social Enterprises for seven consecutive years to invite underprivileged children and family members to a series of "Loving Hong Kong Loving Home" cruise parties along Victoria Harbour. During the events, the children have the opportunity to have a wonderful time with their family members enjoying the remarkable view of Victoria Harbour. Apart from the cruise events, we also led the children to visit various industry facilities which may be unfamiliar and inaccessible to them. For instance, we arranged a visit for primary school students to the Hong Kong Sea School in June 2018 to have a better understanding of life at this unconventional boarding school.

Case Study - "Loving Hong Kong Loving Home" Series 2018

In July 2018, we invited around 800 people from grassroots families from different regions to "Loving Hong Kong Loving Home - Cruise Party 2018" aboard the Harbour Cruise - Bauhinia in collaboration with Wofoo Social Enterprises. This year, we integrated the concept of "simple living" in the cruise events with a series of sharing and recreational activities on healthy living carried out on-board. We invited health practitioners to share information on the nutrition of seasonal foods. Daily necessities, such as electrical appliances, stationery and condiments were distributed to the families as gifts.

In October 2018, we collaborated with Pok Oi Hospital to hold an event "Loving Hong Kong Loving Home — Pok Oi Halloween Cruise Party 2018" receiving over 350 people from grassroots families in Hong Kong. A buffet was served on-board along with entertainment for them to spend a wonderful time with their family members.

6. OUR CONTRIBUTION TO THE COMMUNITY (Continued)

b. Caring for the Community (Continued)

Internship and Shipyard Visits

It is our belief that sharing our knowledge and experiences with professionals, academia, NGOs, students and the like, will bring positive effects to the industry thus further contributing to the social and economic development of Hong Kong. This year, we continue to offer internship programmes and arrange shipyard visits for students from tertiary institutions, Hong Kong Sea School ("HKSS") and secondary schools. A total of 15 students interned with various divisions within the Group in 2018. These opportunities allow them to gain insights and industry experience at the operational level and better prepare themselves for the job market in the future. In addition, we invited over 200 students from 10 different tertiary institutions to visit the shipyard, which provides them a valuable learning experience outside the classroom.

Case Study - Coxswain/Engineer Trainee Programme

Established in 2014, the Coxswain/Engineer Trainee Programme for graduates of HKSS is a four-year training scheme launched by The Hongkong and Yaumati Ferry Company Limited. This tailor-made programme includes both in-house and external training courses as well as on-the-job mentorships. Experienced coxswains/engineers are assigned to be mentors to teach and share their personal experiences with the trainees. Job rotations are arranged to immerse them into different roles and environments, and to broaden their horizons outside the classroom. Since the programme's inception, around 20 trainees were able to obtain valuable skills and professional qualifications. We provide further support to HKSS's training courses by offering internship opportunities to their students to further equip them with industry experience.

Corporate Volunteer Team

As part of our core values in promoting a caring culture in our community, Hong Kong Ferry Group is dedicated to serving the environment and underprivileged groups. In 2018, our Corporate Volunteer Team supported and participated in more than 30 volunteer services and contributed more than 900 volunteer hours to benefit around 2,338 people in our community.

~2,338
Beneficiaries

900+
Volunteer Hours

6. OUR CONTRIBUTION TO THE COMMUNITY (Continued)

b. Caring for the Community (Continued)

Highlights

27 January; 10 February; 24 March; 27 October; 24 November; and 29 December 2018	Volunteers participated in six "Neighbourhood First" events organised by The Hong Kong Federation of Youth Groups to deliver and distribute rice to low-income and underprivileged groups in our society.	
28 February 2018	Volunteers participated in the Greeners Action's red packet recycling campaign to promote the reusing and recycling of red packets.	
16 June 2018	During the time around the Dragon Boat Festival, volunteers participated in the "Neighbourhood First" event organised by The Hong Kong Federation of Youth Groups to express their care to senior citizens by visiting them.	

6. OUR CONTRIBUTION TO THE COMMUNITY (Continued)

b. Caring for the Community (Continued)

Highlights (Continued)

18 August 2018	Volunteers supported senior citizens to choose and purchase healthy food at the “Eating with Health and Joy” event organised by Promoting Happiness Index Foundation.	
20 August 2018	We invited 44 underprivileged university students from Mainland China through China Candle Light Fund to a dinner buffet at the Harbour Cruise - Bauhinia.	
14 October 2018	Volunteers and their families joined “Charity Walk 2018” organised by the Hong Kong Federation of Handicapped Youth to support individuals with disabilities.	

7. OUR RESPONSIBILITY IN THE VALUE CHAIN

To continually fulfil and exceed the high expectations placed on our products and services, our operations are closely monitored at every stage, including throughout our value chain. We maintain close communications with our different suppliers and contractors and implement various engagement practices to ensure that ethical conduct and high quality standards are upheld throughout the Group.

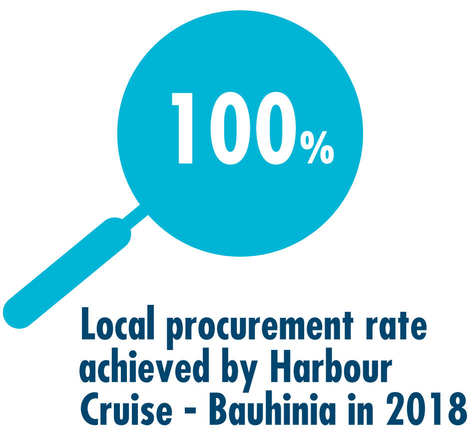
a. Supply Chain Management

We have various practices and policies in place to handle our suppliers and contractors to ensure environmental and social impacts, which may arise from our diverse supply chain, are sufficiently mitigated and managed. All of our suppliers and contractors are strictly required to comply with all local environmental, employment and safety regulations.

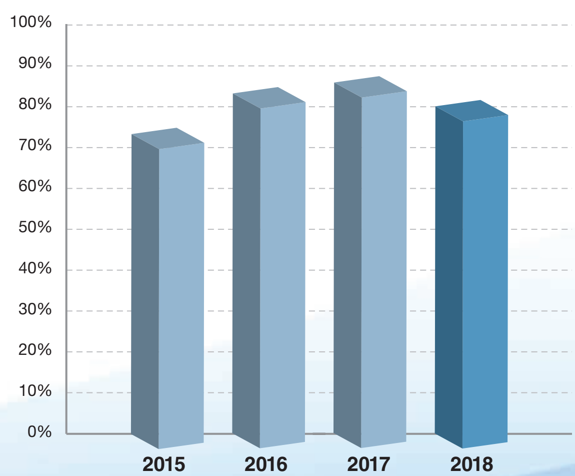
A variety of monitoring initiatives have been implemented to ensure compliance and promote best practice, including monthly joint safety inspections with onsite contractors and tender requirements for the implementation of construction waste management plans during relevant works. Furthermore, suppliers are reviewed intermittently, and the results are issued in a Supplier Evaluation Report and Supplier Performance Review. Suppliers who fail to meet the Group's standards are subject to a comprehensive inspection. Areas of concern are identified and addressed through corrective actions subsequently developed by the Group in conjunction with the supplier for future improvement.

Our Code of Conduct outlines the policies that guide the Group's supplier engagement to ensure that we are operating under the highest standard of ethics and fair business practices to prevent incidents of misconduct such as bribery or other malpractice. When issuing contracts, the selection process considers suppliers' and contractors' environmental practices alongside the quality of products and services, Group needs and cost.

As a conglomerate with deep roots and a rich history in Hong Kong, we aim to support local industries and businesses whenever possible. In addition to the benefits to the local economy, the prioritisation of local procurement helps to lessen the environmental impact of our operations by reducing the fuel and energy required to procure our materials, goods, supplies and services. During the reporting year, we achieved an overall local procurement rate of 84%.



Overall local procurement rate of the Group



7. OUR RESPONSIBILITY IN THE VALUE CHAIN (Continued)

b. Responsible Products and Services

In recognition of the importance of responsible business practices and high quality standards, we have developed policies and measures to protect customer interests and help ensure that we continue to enhance our product and service offerings. Our comprehensive policies guide our approach on a wide range of issues that concern us as a responsible service provider such as quality assurance, protection of intellectual property rights and protection of customer data and privacy. During the reporting year, there were no reported cases of non-compliance with relevant laws and regulations.

We understand that our customers place a great deal of trust in our organisation to handle and protect their personal data and privacy. We do not take this responsibility lightly and take great care to ensure our operations are in compliance with all relevant laws and regulations. Our employees are required to adhere to our Employee Internet and Email Use Policy to ensure all confidential data is handled in a safe and secure manner.

Due to the nature of services provided by Harbour Cruise - Bauhinia, we are mindful of the potential concerns regarding intellectual property rights and musical copyright laws. As such, in compliance with all relevant music copyright laws, the Group has paid all necessary musical royalties under a Copyright Music Performance Licence Contract. The Harbour Cruise - Bauhinia is also registered as a trademark with the Trade Marks Registry, Intellectual Property Department of the Government.

To further demonstrate our commitment to quality standards, our shipyard operations and Harbour Cruise - Bauhinia have adopted the international standard ISO 9001:2015 Quality Management Systems. To strengthen the capability of our property development and investment operations to meet the needs of customers with respect to fresh and flushing water quality, Metro Harbour Plaza enrolled in the Water Supplies Department's Quality Water Supply Schemes For Buildings and achieved the required standards. Additionally, in order to monitor progress and gather information on the effectiveness of our various measures, we have continued to conduct customer satisfaction surveys and have reviewed detailed client feedback across all operations. The data gathered from our detailed client feedback is consolidated in our Service Evaluation Record and is reviewed quarterly for non-contractual customers and annually for contractual customers. The results from our customer satisfaction survey and Service Evaluation Record are an essential part of our business strategy development by helping us augment our customer service and service offerings. During the reporting year, there were no complaints received regarding our products or services.

The frequency and overall results of customer satisfaction surveys

Business Units	Frequency	Satisfaction Rate
Harbour Cruise - Bauhinia	Weekly	97%
Shipyard Operation	Quarterly	Contract Basis: 100% Project Basis: 100%
Dangerous Goods Vehicular Ferry Services	Bi-annually	100%

8. THE WAY FORWARD

It has been another delightful year in our sustainability journey as we grew and integrated sustainability strategies further into our operations. Steered by Hong Kong Ferry Group's spirit of continuous improvement, we carry on pursuing excellence in sustainability governance, environmental stewardship, employee well-being, community investment and social responsibility. Looking forward, we are dedicated to exploring enhancement opportunities for our ESG initiatives and to building a stronger connection with our stakeholders and the local community. Through caring, innovation and enrichment, we strive to achieve sustainable development as a company with our dedicated and committed employees and the management leading the way.

9. PERFORMANCE DATA SUMMARY

HKEx KPI	Description	Unit	2018	2017
A. Environmental				
A1.1	**The types of emissions and respective emissions data** (Note 1)			
	NOx	Tonnes	114.27	114.64
	SOx	Tonnes	0.13	0.13
	PM	Tonnes	2.89	2.90
A1.2	**Greenhouse gas emissions in total and intensity** (Note 2)			
	— in total	Tonnes of CO_2e	6,943.34	7,213.21
	— in intensity	Tonnes of CO_2e per ferry, shipyard and Harbour Cruise - Bauhinia operations total revenue (HK$ million)	40.12	38.86
A1.3	**Total hazardous waste recycled and intensity**			
	Recycled Spent Oil (Note 4) — in total — in intensity	 Litres Litres/FTE (Note 3)	 4,600 20.91	 11,200 52.58
	Used Battery (Note 4) — in total — in intensity	 kg kg/FTE	 1,800 8.18	 540 2.54

9. PERFORMANCE DATA SUMMARY (Continued)

HKEx KPI	Description	Unit	2018	2017
A. Environmental (Continued)				
A1.4	**Total non-hazardous waste produced and intensity**			
	General Waste (Note 5)			
	— in total	kg	2,675	2,516
	— in intensity	kg/FTE	12.16	11.81
	Food Waste (Note 5)			
	— in total	kg	5,022	4,010
	— in intensity	kg/FTE	22.83	18.83
	Paper Waste (Note 5)			
	— in total	kg	2,380	2,136
	— in intensity	kg/FTE	10.82	10.03
	Recycled Glass Bottle (Note 5)			
	— in total	kg	87	3,101
	— in intensity	kg/FTE	0.4	96.91
	Recycled Paper (Note 6)			
	— in total	kg	1,880	2,580
	— in intensity	kg/FTE	8.55	12.17
	Recycled Aluminium (Note 4)			
	— in total	kg	666	358
	— in intensity	kg/FTE	3.03	3.38
	Recycled Bronze (Note 4)			
	— in total	kg	278	370
	— in intensity	kg/FTE	1.26	1.74
	Recycled Steel (Note 4)			
	— in total	kg	4,400	6,800
	— in intensity	kg/FTE	20	31.92
	Recycled Zinc Alloy (Note 4)			
	— in total	kg	1,200	800
	— in intensity	kg/FTE	5.45	3.76
	Recycled Used Cooking Oil (Note 4)			
	— in total	Litres	1,152	666
	— in intensity	Litres/FTE	5.24	3.13
	Recycled Oily Water (Note 4)			
	— in total	Litres	4,000	4,000
	— in intensity	Litres/FTE	18.18	18.78

9. PERFORMANCE DATA SUMMARY (Continued)

HKEx KPI	Description	Unit	2018			2017		
A. Environmental (Continued)								
A2.1	**Energy consumption by type and intensity** (Note 2)							
	— Fuel	kWh	19,333,990			20,004,556		
	— Electricity	kWh	1,700,545			1,801,475		
	— in total	In 1,000 kWh	21,034			21,806		
	— in intensity	1,000 kWh per ferry, shipyard and Harbour Cruise - Bauhinia operations total revenue (HK$ million)	121.53			117.49		
A2.2	**Water consumption in total and intensity**							
	— in total	m^3	44,652			26,534		
	— in intensity	m^3/FTE	202.96			124.57		
B. Social								
Employment and Labour Practices								
B1.1	**Total workforce by employment type and gender**		Male	Female		Male	Female	
	Full-time	No. of people	180	40		172	41	
	Part-time	No. of people	1	0		1	0	
	Total workforce by employment type and age group		<30	30–50	>50	<30	30–50	>50
	Full-time	No. of people	30	59	131	31	57	125
	Part-time	No. of people	0	0	1	0	0	1
B1.2	**Employee turnover rate by gender**		Male	Female		Male	Female	
		%	5.9	3.2		6.1	2.8	
	Employee turnover rate by age group		<30	30–50	>50	<30	30–50	>50
		%	5.0	2.7	1.4	3.7	2.8	2.4
B2.1	**Number and rate of work-related fatalities**							
	— By number	No. of people	0			0		
	— By rate	%	0			0		
B2.2	**Lost days due to work injury**							
		Days	787			745		

9. PERFORMANCE DATA SUMMARY (Continued)

HKEx KPI	Description	Unit	2018			2017		
B. Social (Continued)								
Employment and Labour Practices (Continued)								
B3.1	**The percentage of employees trained by gender and employee category**		Total	Male	Female	Total	Male	Female
	— General	%	93.99	97.44	74.07	90.29	93.92	70.37
	— Supervisors to Managers	%	93.10	88.24	100	83.33	88.24	76.92
	— Management	%	100	100	100	100	100	100
	— Overall	%	94.09	96.67	82.5	89.67	93.60	73.17
B3.2	**The average training hours completed per employee by gender and employee category**		Total	Male	Female	Total	Male	Female
	— General	Hours	24.39	27.23	8.01	18.92	20.70	9.16
	— Supervisors to Managers	Hours	21.09	23.62	17.52	12.43	13.79	10.65
	— Management	Hours	49.44	52.57	27.50	58.31	62.21	31.00
	— Overall	Hours	24.87	27.88	11.35	19.49	21.71	10.16
Operating Practices								
B5.1	**Number of suppliers by geographical region** (Note 7)							
	— Hong Kong	No. of organisations	824			519		
	— Mainland China	No. of organisations	58			24		
	— Others (e.g. Asia and Europe)	No. of organisations	98			41		
B6.2	**Number of products and service related complaints received**							
	No. of cases		2			2		
B7.1	**Number of concluded legal cases regarding corrupt practices brought against Hong Kong Ferry or its employees during the reporting year**							
	No. of cases		0			0		

Notes:

1. Emission data are confined to The Hongkong and Yaumati Ferry Company Limited. Marine air emissions data are calculated based on harbour craft emissions estimation methodology in Port of Los Angeles Inventory of Air Emissions 2005 Technical Report (https://www.portoflosangeles.org/pola/pdf/doc/2005_air_emissions_inventory_full_doc.pdf).

2. For 2017, GHG emission data and energy consumption data are confined to The Hong Kong Shipyard Limited, The Hongkong and Yaumati Ferry Company Limited and Harbour Cruise - Bauhinia. In 2018, GHG emission data and energy consumption data expanded to include the Principal Office. With consideration of the scope, the intensity figures of GHG emissions and energy consumption are calculated using the ferry, shipyard and Harbour Cruise - Bauhinia operations total revenue (HK$ million).

9. PERFORMANCE DATA SUMMARY (Continued)

Notes: (Continued)

3. FTE: Full-time equivalent employee; excluding part-time employees.
4. The data are confined to The Hong Kong Shipyard Limited.
5. The data are confined to Harbour Cruise - Bauhinia.
6. The data are confined to the Principal Office.
7. Supplier data are confined to The Hong Kong Shipyard Limited, The Hongkong and Yaumati Ferry Company Limited and Harbour Cruise - Bauhinia and calculated based on the number of suppliers, contractors, subcontractors, consultants and service providers engaged during the year.

10. HKEX ESG GUIDE CONTENT INDEX

Aspect	HKEx KPI	Description	Page Number/ Remarks
A. Environmental			
A1 Emissions	A1	General Disclosure	49–52
	A1.1	The types of emissions and respective emissions data	65
	A1.2	Greenhouse gas emissions in total and intensity	65
	A1.3	Total hazardous waste produced and intensity	65
	A1.4	Total non-hazardous waste produced and intensity	66
	A1.5	Description of measures to mitigate emissions and results achieved	49–50
	A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved	52

10. HKEX ESG GUIDE CONTENT INDEX (Continued)

Aspect	HKEx KPI	Description	Page Number/ Remarks
A. Environmental (Continued)			
A2 Use of Resources	A2	General Disclosure	49–52
	A2.1	Direct and/or indirect energy consumption by type in total and intensity	67
	A2.2	Water consumption in total and intensity	67
	A2.3	Description of energy use efficiency initiatives and results achieved	49–50
	A2.4	Description of issue in sourcing water, water efficiency initiatives and results achieved	51–52
	A2.5	Total packaging material used for finished products	Due to the business nature of the Hong Kong Ferry Group, this KPI is considered not material.
A3 The Environment and Natural Resources	A3	General Disclosure	49–53
	A3.1	Description of the significant impacts of activities on the environment and natural resources and actions taken to manage them	49–53
B. Social			
Employment and Labour Practices			
B1 Employment	B1	General Disclosure	53–54
	B1.1	Total workforce by gender, employment type, age group and geographical region	67
	B1.2	Employee turnover rate by gender, age group and geographical region	67
B2 Health and Safety	B2	General Disclosure	55–56
	B2.1	Number and rate of work-related fatalities	67
	B2.2	Lost days due to work injury	67
	B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored	55–56

10. HKEX ESG GUIDE CONTENT INDEX (Continued)

Aspect	HKEx KPI	Description	Page Number/ Remarks
B. Social (Continued)			
Employment and Labour Practices (Continued)			
B3 Development and Training	B3	General Disclosure	54–55
	B3.1	Percentage of employees trained by gender and employee category	68
	B3.2	Average training hours completed per employee by gender and employee category	68
B4 Labour Standards	B4	General Disclosure	We abide by relevant employment ordinances and statutory requirements of Hong Kong. No relevant cases of non-compliance were recorded.
	B4.1	Description of measures to review employment practices to avoid child and forced labour	
	B4.2	Description of steps taken to eliminate such practices when discovered	
Operating Practices			
B5 Supply Chain Management	B5	General Disclosure	63
	B5.1	Number of suppliers by geographical region	68
	B5.2	Description of practices relating to engaging suppliers, number of suppliers where and how the practices are being implemented and monitored	63

10. HKEX ESG GUIDE CONTENT INDEX (Continued)

Aspect	HKEx KPI	Description	Page Number/ Remarks
B. Social (Continued)			
Operating Practices (Continued)			
B6 Product Responsibility	B6	General Disclosure	64
	B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons	Due to the business nature of the Hong Kong Ferry Group, this KPI is considered not material.
	B6.2	Number of products and service related complaints received and how they are dealt with	68
	B6.3	Description of practices relating to observing and protecting intellectual property rights	64
	B6.4	Description of quality assurance process and recall procedures	64
	B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored	64
B7 Anti-corruption	B7	General Disclosure	57
	B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases	68
	B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored	57
Community			
B8 Community Investment	B8	General Disclosure	58–62
	B8.1	Focus areas of contribution	58–62
	B8.2	Resources contributed to the focus area	58–62

KPMG

Independent auditor's report to the members of Hong Kong Ferry (Holdings) Company Limited
(incorporated in Hong Kong with limited liability)

OPINION

We have audited the consolidated financial statements of Hong Kong Ferry (Holdings) Company Limited ("the Company") and its subsidiaries ("the Group") set out on pages 79 to 167, which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement 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 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 judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

KEY AUDIT MATTERS (Continued)

Valuation of investment properties

Refer to note 1 (accounting policy) and note 11 to the consolidated financial statements

The Key Audit Matter	How the matter was addressed in our audit
The Group's investment properties which comprise retail properties, car parking spaces and godowns are located in Hong Kong. These investment properties were stated at their fair values of HK$2,151 million as at 31 December 2018 which accounted for 54% of the Group's non-current assets as at that date. The fair values of the Group's investment properties as at 31 December 2018 were assessed by the board of directors based on independent valuations prepared by a firm of qualified external property valuers. The net changes in fair values of investment properties recorded in the consolidated profit or loss represented 13% of the Group's profit for the year ended 31 December 2018. The valuation of the Group's investment properties is complex and involves a significant degree of management judgement and estimation in respect of the determination of capitalisation rates and prevailing market rents, particularly given the dissimilar nature of the investment properties held by the Group. We identified valuation of investment properties as a key audit matter because these properties represent the majority of the Group's non-current assets and because the valuations are inherently subjective and involve a significant degree of judgement and estimation by management which increases the risk of error or potential management bias.	Our audit procedures in relation to valuation of investment properties included the following: – obtaining and inspecting the valuation reports prepared by the external property valuers engaged by the Group and on which the directors' assessment of the fair values of investment properties was based; – assessing the external property valuers' qualifications, experience and expertise in the properties being valued and considering their objectivity and independence; – with the assistance of our internal property valuation specialists, discussing with the external property valuers their valuation methodology, without the presence of management, and challenging the key estimates and assumptions adopted in the valuations by comparing capitalisation rates, prevailing market rents and comparable market transactions with the market available data and government produced market statistics; – comparing tenancy information, including committed rents and occupancy rates, provided by the Group to the external property valuers with underlying contracts and related documentation, on a sample basis.

KEY AUDIT MATTERS (Continued)

Assessing the net realisable value of properties under development for sale ("PUD") owned by the Group and a joint venture

Refer to note 1 (accounting policy) and note 17 to the consolidated financial statements

The Key Audit Matter	How the matter was addressed in our audit
The PUD projects of the Group are located in Hong Kong and held either directly or through its joint venture, which are stated at lower of cost and net realisable value. The determination of the net realisable value of the PUD projects are performed by management. It involves significant judgement and estimation in preparing and updating project feasibility studies and estimations of the costs to complete the property development projects as well as in assessing the expected future selling prices for the properties and the expected future selling costs. Changes in government policies in relation to the stamp duty regime, restrictions on residential property mortgage loans and the impact of the global economy on local interest rates could lead to volatility in property prices in Hong Kong. We identified the assessment of net realisable value of the PUD projects owned by the Group and its joint venture as a key audit matter because of the inherent risks involved in estimating the costs to complete each property development project and in estimating the future selling prices for each property development project.	Our audit procedures to assess the net realisable value of the PUD projects included the following: – obtaining management's assessment of the net realisable value of each PUD project and discussing with management the development progress of each project; – conducting site visits to the PUD projects to observe the development progress and comparing the observed development progress with management's records; – discussing with management their valuation methodology and challenging the key estimates and assumptions adopted, including expected future selling prices and costs to completion, by comparison with recently transacted prices for similar properties or the prices of comparable properties located in the nearby vicinity of the PUD projects and by comparison with market statistics for estimated construction costs, signed construction contracts and/or unit construction costs of recently completed projects developed by the Group; – performing sensitivity analyses by making adjustments to the key estimates and assumptions adopted by management in the determination of net realisable value to assess the risk of possible management bias in the net realisable value assessment exercise.

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

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

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

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

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

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

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

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

– Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

– Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

– 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.

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Yau Ngai Lun, Alan.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

14 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2018

	Note	2018 HK$'000	2017 (restated) HK$'000
Revenue	3(a)	**1,088,563**	447,637
Direct costs		**(694,315)**	(227,780)
		394,248	219,857
Other revenue	3(a) & 4	**53,271**	59,353
Other net (loss)/income	4	**(1,760)**	66,478
Valuation gains on investment properties	3(d) & 11	**43,885**	56,954
Selling and marketing expenses		**(32,516)**	(11,384)
Administrative expenses		**(49,981)**	(44,263)
Other operating expenses		**(10,264)**	(4,293)
Profit from operations	3(b)	**396,883**	342,702
Share of profits less losses of associates		**1,005**	926
Share of loss of a joint venture		**(131)**	(101)
Profit before taxation	5	**397,757**	343,527
Taxation	6(a)	**(53,114)**	(32,402)
Profit attributable to equity shareholders of the Company		**344,643**	311,125
Earnings per share	10		
– Basic and diluted		**$0.97**	$0.87

The notes on pages 86 to 167 form part of these financial statements. Details of dividends payable to equity shareholders of the Company attributable to the profit for the year are set out in note 9.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	2018 HK$'000	2017 (restated) HK$'000
Profit attributable to equity shareholders of the Company	**344,643**	311,125
Other comprehensive income for the year (after tax and reclassification adjustments)		
Item that will not be reclassified to profit or loss:		
Remeasurement of employee retirement benefits liabilities	**(329)**	2,125
Financial assets at fair value through other comprehensive income – net movement in fair value reserve (non-recycling)	**(40,911)**	–
Item that may be reclassified subsequently to profit or loss:		
Financial assets at fair value through other comprehensive income – net movement in fair value reserve (recycling)	**(4,758)**	–
Available-for-sale securities: net movement in the securities revaluation reserve (recycling)	**–**	565
Other comprehensive income for the year	**(45,998)**	2,690
Total comprehensive income attributable to equity shareholders of the Company	**298,645**	313,815

The notes on pages 86 to 167 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	Note	At 31 December 2018 HK$'000	At 31 December 2017 (restated) HK$'000	At 1 January 2017 (restated) HK$'000
Non-current assets				
Investment properties	11	**2,151,470**	2,107,585	2,050,655
Other property, plant and equipment	11	**52,657**	56,123	58,957
Interest in leasehold land	11	**39,031**	40,400	41,769
		2,243,158	2,204,108	2,151,381
Interest in associates	13	**8,048**	9,109	10,449
Interest in a joint venture	14	**1,364,163**	1,364,295	1,354,395
Other financial assets	15	**337,304**	176,306	661,542
Deferred tax assets	22(b)	**3,618**	5,294	5,248
		3,956,291	3,759,112	4,183,015
Current assets				
Inventories	17(a)	**1,116,208**	575,046	499,378
Trade and other receivables	18	**361,234**	629,533	831,458
Other financial assets		**—**	—	20,000
Cash and bank balances	19(a)	**903,362**	1,791,679	949,449
Tax recoverable	22(a)	**37,349**	36,583	23,610
		2,418,153	3,032,841	2,323,895
Current liabilities				
Trade and other payables	20	**139,045**	158,033	174,864
Contract liabilities	21	**—**	592,626	455,184
Tax payable	22(a)	**41,318**	16,230	41,002
		180,363	766,889	671,050
Net current assets		**2,237,790**	2,265,952	1,652,845
Total assets less current liabilities		**6,194,081**	6,025,064	5,835,860
Non-current liabilities				
Net employee retirement benefits liabilities	16(a)	**4,003**	3,024	4,468
Deferred tax liabilities	22(b)	**59,930**	55,153	50,062
		63,933	58,177	54,530
NET ASSETS		**6,130,148**	5,966,887	5,781,330

CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

At 31 December 2018

	Note	**At 31 December 2018** **HK$'000**	At 31 December 2017 (restated) *HK$'000*	At 1 January 2017 (restated) *HK$'000*
CAPITAL AND RESERVES				
Share capital	*23(b)*	**1,754,801**	1,754,801	1,754,801
Reserves		**4,375,347**	4,212,086	4,026,529
TOTAL EQUITY		**6,130,148**	5,966,887	5,781,330

Approved and authorised for issue by the board of directors on 14 March 2019.

Dr. Lam Ko Yin, Colin
Chairman

Li Ning
Director

The notes on pages 86 to 167 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Note	Share Capital HK$'000 (Note 23(b))	Securities revaluation reserve (non-recycling) HK$'000 (Note 23(c))	Securities revaluation reserve (recycling) HK$'000 (Note 23(c))	Other capital reserves HK$'000 (Note 23(c))	Retained profits HK$'000	Total HK$'000
Balance at 1 January 2017, as previously reported		1,754,801	–	(2,349)	605	4,036,988	5,790,045
Effect of adoption of HKFRS 15		–	–	–	–	(8,715)	(8,715)
As restated		1,754,801	–	(2,349)	605	4,028,273	5,781,330
Changes in equity for 2017:							
Profit for the year, as previously reported		–	–	–	–	346,292	346,292
Effect of adoption of HKFRS 15		–	–	–	–	(35,167)	(35,167)
As restated		–	–	–	–	311,125	311,125
Other comprehensive income		–	–	565	–	2,125	2,690
Total comprehensive income		–	–	565	–	313,250	313,815
Dividends approved in respect of the previous year	9	–	–	–	–	(92,631)	(92,631)
Dividends declared in respect of the current year	9	–	–	–	–	(35,627)	(35,627)
Balance at 31 December 2017 and 1 January 2018		**1,754,801**	**–**	**(1,784)**	**605**	**4,213,265**	**5,966,887**
Changes in equity for 2018:							
Profit for the year		**–**	**–**	**–**	**–**	**344,643**	**344,643**
Other comprehensive income		**–**	**(40,911)**	**(4,758)**	**–**	**(329)**	**(45,998)**
Total comprehensive income		**–**	**(40,911)**	**(4,758)**	**–**	**344,314**	**298,645**
Dividends approved in respect of the previous year	9	**–**	**–**	**–**	**–**	**(99,757)**	**(99,757)**
Dividends declared in respect of the current year	9	**–**	**–**	**–**	**–**	**(35,627)**	**(35,627)**
Balance at 31 December 2018		**1,754,801**	**(40,911)**	**(6,542)**	**605**	**4,422,195**	**6,130,148**

The notes on pages 86 to 167 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2018

		2018		2017 (restated)	
	Note	HK$'000	HK$'000	HK$'000	HK$'000
Operating activities					
Profit before taxation			397,757		343,527
Adjustments for:					
Depreciation	5(b)	5,445		5,676	
Amortisation of leasehold land premium	5(b)	1,369		1,369	
Impairment losses on trade and other receivables	5(b)	122		—	
Change in fair value of other financial assets designated at fair value through profit or loss	4	2,977		—	
Net profit on disposal of available-for-sale securities	4	—		(61,522)	
Net profit on disposal of financial assets designated at fair value through profit or loss	4	—		(2,930)	
Net profit on disposal of other property, plant and equipment	4	(40)		(3)	
Net profit on disposal of other financial assets	4	(86)		—	
Cost adjustment	4	—		(106)	
Valuation gains on investment properties	11	(43,885)		(56,954)	
Interest income		(37,105)		(35,148)	
Dividend income from listed investments		(12,610)		(11,663)	
Share of profits less losses of associates		(1,005)		(926)	
Share of loss of a joint venture		131		101	
			(84,687)		(162,106)
Operating profit before changes in working capital			313,070		181,421
Decrease in net employee retirement benefits liabilities		650		681	
Increase in inventories		(538,845)		(70,238)	
Decrease in trade and other receivables		267,191		300,520	
(Decrease)/increase in trade and other payables and contract liabilities		(613,930)		115,308	
			(884,934)		346,271
Cash (used in)/generated from operations			(571,864)		527,692
Profits tax paid		(22,339)		(65,102)	
			(22,339)		(65,102)
Net cash (used in)/generated from operating activities			(594,203)		462,590

For the year ended 31 December 2018

		2018		2017 (restated)	
	Note	HK$'000	HK$'000	HK$'000	HK$'000
Investing activities					
Interest received		39,170		32,670	
Payment for purchase of other property, plant and equipment		(1,979)		(2,842)	
Payment for purchase of available-for-sale securities		–		(64,213)	
Proceeds from disposal of available-for-sale securities		–		538,682	
Net repayment from associates		1,023		1,203	
Payment for purchase of other financial assets		(282,657)		–	
Proceeds from disposal of other financial assets designated at fair value through other comprehensive income (recycling)		73,099		–	
Proceeds from disposal of other property, plant and equipment		40		3	
Loan to a joint venture		–		(10,000)	
Advances to a joint venture		(1,116)		(24,962)	
Proceeds from disposal of financial assets designated at fair value through profit or loss		–		22,930	
Dividends received from listed investments		12,610		13,377	
Dividends received from an associate		1,080		1,050	
Increase in bank deposits with maturity over three months at acquisition		(487,938)		–	
Net cash (used in)/generated from investing activities			(646,668)		507,898
Financing activity					
Dividends paid		(135,384)		(128,258)	
Net cash used in financing activity			(135,384)		(128,258)
Net (decrease)/increase in cash and cash equivalents			(1,376,255)		842,230
Cash and cash equivalents at 1 January			1,791,679		949,449
Cash and cash equivalents at 31 December	19(a)		415,424		1,791,679

The notes on pages 86 to 167 form part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

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

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2018 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in associates and a joint venture.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

— investment properties (see note 1(g)); and

— investments in debt and equity securities (see note 1(f)).

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

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

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 2.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

— HKFRS 9, *Financial instruments*

— HKFRS 15, *Revenue from contracts with customers*

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

HKFRS 9, *Financial instruments*

HKFRS 9 replaces HKAS 39, *Financial instruments: recognition and measurement*. It sets out the requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items.

The Group has applied HKFRS 9 retrospectively to items that existed at 1 January 2018 in accordance with the transition requirements. Therefore, comparative information continues to be reported under HKAS 39.

Further details of the nature and effect of the changes to previous accounting policies and the transition approach are set out below:

(i) Classification of financial assets and financial liabilities

HKFRS 9 categories financial assets into three principal classification categories: measured at amortised cost, at fair value through other comprehensive income ("FVOCI") and at fair value through profit or loss ("FVPL"). These supersede HKAS 39's categories of held-to-maturity investments, loans and receivables, available-for-sale financial assets and financial assets measured at FVPL. The classification of financial assets under HKFRS 9 is based on the business model under which the financial asset is managed and its contractual cash flow characteristics. Under HKFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are not separated from the host. Instead, the hybrid instrument as a whole is assessed for classification.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

HKFRS 9, *Financial instruments* (Continued)

(i) Classification of financial assets and financial liabilities (Continued)

The following table shows the original measurement categories for each impacted class of the Group's financial assets under HKAS 39 and reconciles the carrying amounts of those financial assets determined in accordance with HKAS 39 to those determined in accordance with HKFRS 9.

	HKAS 39 carrying amount at 31 December 2017	Reclassification	HKFRS 9 carrying amount at 1 January 2018
	HK$'000	*HK$'000*	*HK$'000*
Financial assets classified as available-for-sale under HKAS 39 *(note)*			
Listed debt securities	176,306	(176,306)	**–**
	176,306	(176,306)	**–**
Financial assets measured at FVOCI (recycling) *(note)*			
Listed debt securities	–	176,306	**176,306**
	–	176,306	**176,306**

Note: Under HKAS 39, debt securities not held for trading were classified as available-for-sale financial assets and measured at fair value. These debt securities are classified as at FVOCI (recycling) under HKFRS 9. The subsequent measurement and accounting policies do not materially differ from those adopted by the Group as at 31 December 2017.

The measurement categories for all financial liabilities remain the same. The carrying amounts for all financial liabilities at 1 January 2018 have not been impacted by the initial application of HKFRS 9.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

HKFRS 9, *Financial instruments* (Continued)

(ii) Credit losses

HKFRS 9 replaces the "incurred loss" model in HKAS 39 with the expected credit losses ("ECL") model. The ECL model requires an ongoing measurement of credit risk associated with a financial asset and therefore recognises ECLs earlier than under the "incurred loss" accounting model in HKAS 39.

The Group applies the new ECL model to trade and other receivables. The adoption of the new ECL model has no significant impact to the financial statements of the Group.

HKFRS 15, *Revenue from contracts with customers*

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18, *Revenue*, which covered revenue arising from sale of goods and rendering of services, and HKAS 11, *Construction contracts*, which specified the accounting for construction contracts.

HKFRS 15 also introduces additional qualitative and quantitative disclosure requirements which aim to enable users of the financial statements to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers.

The Group has been impacted by HKFRS 15 in relation to timing of revenue recognition. Details of the changes in accounting policies are discussed below.

The Group has elected to use the retrospective method upon transition and has recognised the effect of initial application retrospectively to the each prior reporting period. Therefore, comparative information has been restated to be reported under HKFRS 15.

The following tables gives a summary of the transition adjustments recognised for each line item in the consolidated statement of financial position as at 31 December 2017, the consolidated statement of profit or loss and the consolidated cash flow statement for the year ended 31 December 2017.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

HKFRS 15, *Revenue from contracts with customers* (Continued)

(i) Effect on the consolidated statement of financial position as at 31 December 2017

	As previously reported *HK$'000*	Impact on initial application of HKFRS 15 *HK$'000*	As restated *HK$'000*
Deferred tax assets	5,036	258	5,294
Other non-current assets	3,753,818	—	3,753,818
Total non-current assets	**3,758,854**	**258**	**3,759,112**
Inventories	559,490	15,556	575,046
Trade and other receivables	690,613	(61,080)	629,533
Cash and bank balances	1,791,679	—	1,791,679
Tax recoverable	27,860	8,723	36,583
Total current assets	**3,069,642**	**(36,801)**	**3,032,841**
Trade and other payables	743,320	(585,287)	158,033
Contract liabilities	—	592,626	592,626
Tax payable	16,230	—	16,230
Total current liabilities	**759,550**	**7,339**	**766,889**
Net current assets	**2,310,092**	**(44,140)**	**2,265,952**
Total assets less current liabilities	**6,068,946**	**(43,882)**	**6,025,064**
Non-current liabilities	**58,177**	**—**	**58,177**
Net assets	**6,010,769**	**(43,882)**	**5,966,887**
Share capital	1,754,801	—	1,754,801
Reserves	4,255,968	(43,882)	4,212,086
Total equity	**6,010,769**	**(43,882)**	**5,966,887**

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

HKFRS 15, *Revenue from contracts with customers* (Continued)

(ii) Effect on the consolidated statement of profit or loss for the year ended 31 December 2017

	As previously reported *HK$'000*	Impact on initial application of HKFRS 15 *HK$'000*	As restated *HK$'000*
Revenue	493,529	(45,892)	447,637
Direct costs	(231,120)	3,340	(227,780)
	262,409	(42,552)	219,857
Other revenue	59,353	—	59,353
Other net income	66,478	—	66,478
Valuation gains on investment properties	56,954	—	56,954
Selling and marketing expenses	(11,510)	126	(11,384)
Administrative expenses	(44,263)	—	(44,263)
Other operating expenses	(4,293)	—	(4,293)
Profit from operations	**385,128**	**(42,426)**	**342,702**
Share of profits less losses of associates	926	—	926
Share of loss of a joint venture	(101)	—	(101)
Profit before taxation	**385,953**	**(42,426)**	**343,527**
Taxation	(39,661)	7,259	(32,402)
Profit attributable to equity shareholders of the Company	**346,292**	**(35,167)**	**311,125**
Earnings per share — Basic and diluted	$0.97		$0.87

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

HKFRS 15, *Revenue from contracts with customers* (Continued)

(iii) Effect on the consolidated cash flow statement for the year ended 31 December 2017

	As previously reported *HK$'000*	Impact on initial application of HKFRS 15 *HK$'000*	As restated *HK$'000*
Profit before taxation	385,953	(42,426)	343,527
Operating profit before changes in working capital	**223,847**	**(42,426)**	**181,421**
Decrease in net employee retirement benefits liabilities	681	—	681
Increase in inventories	(66,898)	(3,340)	(70,238)
Decrease in trade and other receivables	261,751	38,769	300,520
Increase in trade and other payables and contract liabilities	108,311	6,997	115,308
Cash generated from operations	**527,692**	**—**	**527,692**
Profit tax paid	(65,102)	—	(65,102)
Net cash generated from operating activities	**462,590**	**—**	**462,590**
Net cash generated from investing activities	**507,898**	**—**	**507,898**
Net cash used in financing activity	**(128,258)**	**—**	**(128,258)**
Net increase in cash and cash equivalents	**842,230**	**—**	**842,230**
Cash and cash equivalents at 1 January	**949,449**	**—**	**949,449**
Cash and cash equivalents at 31 December	**1,791,679**	**—**	**1,791,679**

Further details of the nature and effect of the changes arising from HKFRS 15, *Revenue from contracts with customers*, to previous accounting policies are set out below:

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Changes in accounting policies (Continued)

HKFRS 15, *Revenue from contracts with customers* (Continued)

Timing of revenue recognition

Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. HKFRS 15 identifies the following three situations in which control of the promised good or service is regarded as being transferred over time:

- When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;
- When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;
- When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under HKFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that is considered in determining when the transfer of control occurs.

The adoption of HKFRS 15 has an impact on when the Group recognises revenue from property sales.

The Group's property development activities are carried out in Hong Kong only. Taking into account the contract terms, the Group's business practice and the legal and regulatory environment of Hong Kong, the property sales contracts do not meet the criteria for recognising revenue over time and therefore revenue from property sales continues to be recognised at a point in time. Previously the Group recognised revenue from property sales upon the later of the signing of the sale and purchase agreement and the completion of the property development, which was taken to be the point in time when the risks and rewards of ownership of the property were transferred to the customer. Under the transfer-of-control approach in HKFRS 15, revenue from property sales is generally recognised when the legal assignment is completed, which is the point in time when the customer has the ability to direct the use of the property and obtain substantially all of the remaining benefits of the property.

The Group currently offers different payment schemes to customers, the transaction price and the amount of revenue from sale of properties will be adjusted when significant financing component exists in that contract. Stamp duty, sales commissions and other costs only incurred if the amount is obtained, if recoverable, are capitalised as contract costs and subsequently amortised when the related revenue is recognised.

The adoption of HKFRS 15 does not have a material impact on the recognition policy of the Group's other revenue streams.

As a result of this change in policy, the Group has made adjustments as illustrated in tables (i), (ii) and (iii).

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Subsidiaries

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

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

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss.

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

(e) Associates and joint arrangements

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Associates and joint arrangements (Continued)

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

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

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

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

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

A joint operation whereby the Group and other party contractually agree to share control of the arrangement, and have rights to the assets, and obligations for the liabilities, relating to the arrangement. The Group recognises its interest in the joint operation by combining the assets, liabilities, revenues and expenses attributable to its interest with similar items on a line-by-line basis.

(f) Investments in debt and equity securities

The Group's policies for investments in debt and equity securities, other than investments in subsidiaries, associates and joint ventures, are set out below:

Investments in debt and equity securities are recognised/derecognised on the date the Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at FVPL for which transaction costs are recognised directly in profit or loss. For an explanation of how the Group determines fair value of financial instruments, see note 24(e). These investments are subsequently accounted for as follows, depending on their classification.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Investments in debt and equity securities (Continued)

(i) Policy applicable from 1 January 2018

Investments other than equity investments

Non-equity investments held by the Group are classified into one of the following measurement categories:

– amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method (see note 1(s)(v)).

– FVOCI – recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of ECL, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.

– FVPL, if the investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

Equity investments

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI, are recognised in profit or loss as revenue in accordance with the policy set out in note 1(s)(vi).

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Investments in debt and equity securities (Continued)

(ii) Policy applicable prior to 1 January 2018

(A) Investments in debt and equity securities, being those held for non-trading purpose, are classified as available-for-sale securities. Available-for-sale securities are initially stated at fair value, which is their transaction price unless it is determined that the fair value at initial recognition differs from the transaction price and that fair value is evidenced by a quoted price in an active market for an identical asset or liability or based on a valuation technique that uses only data from observable markets. Cost includes attributable transaction costs.

At the end of each reporting period the fair value is remeasured, with any resultant gain or loss being recognised in other comprehensive income and accumulated separately in equity in the securities revaluation reserve. As an exception to this, investments in equity securities that do not have a quoted price in an active market for an identical instrument and whose fair value cannot otherwise be reliably measured are recognised in the statement of financial position at cost less impairment losses (see note 1(j)). Dividend income from equity securities and interest income from debt securities calculated using the effective interest method are recognised in profit or loss in accordance with the policies set out in notes 1(s)(vi) and 1(s)(v), respectively. Foreign exchange gains and losses resulting from changes in the amortised cost of debt securities are also recognised in profit or loss.

When the investments are derecognised or impaired (see note 1(j)), the cumulative gain or loss recognised in equity is reclassified to profit or loss. Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

(B) Financial assets may be designated at FVPL when:

— the designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets on a different basis;

— a group of financial assets is managed and its performance evaluated on a fair value basis; or

— the assets include embedded derivatives and such derivatives are required to be recognised separately.

Financial assets designated at FVPL are recognised initially at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest (see note 1(i)) to earn rental income and/or for capital appreciation. These include land held for a currently undetermined future use and property that is being constructed or developed for future use as investment property.

Investment properties are stated at fair value, unless they are still in the course of construction or development at the end of the reporting period and their fair value cannot be reliably measured at that time. Any gain or loss arising from a change in fair value or from the retirement or disposal of an investment property is recognised in profit or loss. Rental income from investment properties is accounted for as described in note 1(s)(ii).

When the Group holds a property interest under an operating lease to earn rental income and/or for capital appreciation, the interest is classified and accounted for as an investment property on a property-by-property basis. Any such property interest which has been classified as an investment property is accounted for as if it were held under a finance lease (see note 1(i)), and the same accounting policies are applied to that interest as are applied to other investment properties leased under finance leases. Lease payments are accounted for as described in note 1(i).

(h) Other property, plant and equipment

Other property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 1(j)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads.

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

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

Land	Over the unexpired terms of the leases
Buildings	40 years or over the unexpired terms of the leases, if shorter
Leasehold land classified as held under finance leases	Over the unexpired terms of the leases
Ferry vessels and other crafts	8 to 20 years
Machinery, furniture and other plant and equipment	
— Dry dock and ship lift	30 to 40 years
— Others	4 to 10 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Leased assets

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

(i) Classification of assets leased to the Group

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

- property held under operating leases that would otherwise meet the definition of an investment property is classified as investment property on a property-by-property basis and, if classified as investment property, is accounted for as if held under a finance lease (see note 1(g)); and

- land held for own use under an operating lease, the fair value of which cannot be measured separately from the fair value of a building situated thereon at the inception of the lease, is accounted for as being held under a finance lease, unless the building is also clearly held under an operating lease. For these purposes, the inception of the lease is the time that the lease was first entered into by the Group, or taken over from the previous lessee.

(ii) Operating lease charges

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

The cost of acquiring land held under an operating lease is amortised on a straight-line basis over the period of the lease term except where the property is classified as an investment property (see note 1(g)) or is held for development for sale (see note 1(k)(iv)).

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Credit losses and impairment of assets

(i) Credit losses from financial instruments, contract assets and lease receivables

(A) Policy applicable from 1 January 2018

The Group recognises a loss allowance for ECLs on the following items:

- financial assets measured at amortised cost (including cash and cash equivalents, trade and other receivables and loans to associates and joint venture);
- contract assets as defined in HKFRS 15 (see note 1(k)(iii));
- debt securities measured at FVOCI (recycling); and
- lease receivables.

Financial assets measured at fair value, including units in trust funds and equity securities designated at FVOCI (non-recycling) are not subject to the ECL assessment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

- fixed-rate financial assets, trade and other receivables and contract assets: effective interest rate determined at initial recognition or an approximation thereof;
- variable-rate financial assets: current effective interest rate; and
- lease receivables: discount rate used in the measurement of the lease receivable.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Credit losses and impairment of assets (Continued)

(i) Credit losses from financial instruments, contract assets and lease receivables (Continued)

(A) Policy applicable from 1 January 2018 (Continued)

Measurement of ECLs (Continued)

ECLs are measured on either of the following bases:

– 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and

– lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables, lease receivables and contract assets are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (ii) the financial asset is 90 days past due. 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 since initial recognition:

– failure to make payments of principal or interest on their contractually due dates;

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

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

– existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Credit losses and impairment of assets (Continued)

(i) Credit losses from financial instruments, contract assets and lease receivables (Continued)

(A) Policy applicable from 1 January 2018 (Continued)

Significant increases in credit risk (Continued)

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt securities that are measured at FVOCI (recycling), for which the loss allowance is recognised in other comprehensive income and accumulated in the securities revaluation reserve (recycling).

Basis of calculation of interest income

Interest income recognised in accordance with note 1(s)(v) 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 the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

– significant financial difficulties of the debtor;

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

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

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

– the disappearance of an active market for a security because of financial difficulties of the issuer.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Credit losses and impairment of assets (Continued)

(i) Credit losses from financial instruments, contract assets and lease receivables (Continued)

(A) Policy applicable from 1 January 2018 (Continued)

Write-off policy

The gross carrying amount of a financial asset, lease receivable or contract asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

(B) Policy applicable prior to 1 January 2018

Prior to 1 January 2018, an "incurred loss" model was used to measure impairment losses on financial assets not classified as at FVPL (e.g. trade and other receivables, available-for-sale investments and held-to-maturity debt securities). Under the "incurred loss" model, an impairment loss was recognised only when there was objective evidence of impairment. Objective evidence of impairment included:

– significant financial difficulty of the debtor;

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

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Credit losses and impairment of assets (Continued)

(i) Credit losses from financial instruments, contract assets and lease receivables (Continued)

(B) Policy applicable prior to 1 January 2018 (Continued)

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

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

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

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

  When the recovery of a trade debtor or other financial assets carried at amortised cost was considered doubtful but not remote, associated impairment losses were recorded using an allowance account. When the Group was satisfied that recovery was remote, the amount considered irrecoverable was written off against the gross carrying amount of those assets directly. Subsequent recoveries of amounts previously charged to the allowance account were reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly were recognised in profit or loss.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Credit losses and impairment of assets (Continued)

(i) Credit losses from financial instruments, contract assets and lease receivables (Continued)

(B) Policy applicable prior to 1 January 2018 (Continued)

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

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

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

(ii) Credit losses from financial guarantees issued

Financial guarantees are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary of the guarantee (the “holder”) for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantees issued are initially recognised within “trade and other payables” at fair value, which is determined by reference to fees charged in an arm’s length transaction for similar services, when such information is obtainable, or to interest rate differentials, by comparing the actual rates charged by lenders when the guarantee is made available with the estimated rates that lenders would have charged, had the guarantees not been available, where reliable estimates of such information can be made. Where consideration is received or receivable for the issuance of the guarantee, the consideration is recognised in accordance with the Group’s policies applicable to that category of asset. Where no such consideration is received or receivable, an immediate expense is recognised in profit or loss.

Subsequent to initial recognition, the amount initially recognised as deferred income is amortised in profit or loss over the term of the guarantee as income from financial guarantees issued.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Credit losses and impairment of assets (Continued)

(ii) Credit losses from financial guarantees issued (Continued)

(A) Policy applicable from 1 January 2018

The Group monitors the risk that the specified debtor will default on the contract and recognises a provision when ECLs on the financial guarantees are determined to be higher than the amount carried in "trade and other payables" in respect of the guarantees (i.e. the amount initially recognised, less accumulated amortisation).

To determine ECLs, the Group considers changes in the risk of default of the specified debtor since the issuance of the guarantee. A 12-month ECL is measured unless the risk that the specified debtor will default has increased significantly since the guarantee is issued, in which case a lifetime ECL is measured. The same definition of default and the same assessment of significant increase in credit risk as described in note 1(j)(i) apply.

As the Group is required to make payments only in the event of a default by the specified debtor in accordance with the terms of the instrument that is guaranteed, an ECL is estimated based on the expected payments to reimburse the holder for a credit loss that it incurs less any amount that the Group expects to receive from the holder of the guarantee, the specified debtor or any other party. The amount is then discounted using the current risk-free rate adjusted for risks specific to the cash flows.

(B) Policy applicable prior to 1 January 2018

Prior to 1 January 2018, a provision would be recognised if and when it became probable that (i) the holder of the guarantee would call upon the Group under the guarantee and (ii) the amount of the claim on the Group was expected to exceed the amount carried in "trade and other payables" in respect of the guarantee.

(iii) Impairment of other assets

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

– other property, plant and equipment; and

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

If any such indication exists, the asset's recoverable amount is estimated.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Credit losses and impairment of assets (Continued)

(iii) Impairment of other assets (Continued)

– Calculation of recoverable amount

The recoverable amount of an asset is the greater of its 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. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

– Recognition of impairment losses

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

– Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

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

(k) Inventories

(i) Trading stocks

Trading stocks are stated at the lower of cost and net realisable value. Cost includes the cost of materials computed using the weighted average method. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(ii) Spare parts and consumables

Spare parts and consumables are stated at cost, computed using the weighted average method, less provision for obsolescence.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Inventories (Continued)

(iii) Contract assets

Contract assets are recognised when the Group recognises revenue (see note 1(s)) before being unconditionally entitled to the consideration under the payment terms set out in the contract. Contract assets are assessed for ECL in accordance with the policy set out in note 1(j)(i) and are reclassified to receivables when the right to the consideration has become unconditional (see note 1(l)).

(iv) Property development

Inventories in respect of property development activities are carried at the lower of cost and net realisable value. Cost and net realisable values are determined as follows:

— Properties under development for sale

The cost of properties under development for sale comprises specifically identified cost, including the acquisition cost of land, aggregate cost of development, materials and supplies, wages and other direct expenses, and an appropriate proportion of overheads. Net realisable value represents the estimated selling price less estimated costs of completion and costs to be incurred in selling the property.

— Completed properties held for sale

The cost of completed properties held for sale comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

In the case of completed properties developed by the Group, cost is determined by apportionment of the total development costs for that development project, attributable to the unsold properties. Net realisable value represents the estimated selling price less costs to be incurred in selling the property.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised.

The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Trade and other receivables

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset (see note 1(k)(iii)).

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses (see note 1(j)).

(m) Trade and other payables

Trade and other payables are initially recognised at fair value. Except for financial guarantee liabilities measured in accordance with note 1(r)(i), trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(n) Contract liabilities

A contract liability is recognised as forward sales deposits received when the customer pays non-refundable consideration before the Group recognises the related revenue (see note 1(s)). A contract liability would also be recognised if the Group has an unconditional right to receive non-refundable consideration before the Group recognises the related revenue. In such cases, a corresponding receivable would also be recognised (see note 1(l)).

When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method.

(o) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated cash flow statement. Cash and cash equivalents are assessed for ECL in accordance with the policy set out in note 1(j).

(p) Employee benefits

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

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

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Employee benefits (Continued)

(ii) Defined benefit retirement plan obligations

The Group's net obligation in respect of defined benefit retirement plan is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine the present value and the fair value of any plan assets is deducted. The calculation is performed by a qualified actuary using the projected unit credit method. When the calculation results in a benefit to the Group, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan.

Service cost and net interest expense (income) on the net defined benefit liability (asset) are recognised in profit or loss and allocated as part of "administrative expenses". Current service cost is measured as the increase in the present value of the defined benefit obligation resulting from employee service in the current period. When the benefits of a plan are changed, or when a plan is curtailed, the portion of the changed benefit related to past service by employees, or the gain or loss on curtailment, is recognised as an expense in profit or loss at the earlier of when the plan amendment or curtailment occurs and when related restructuring costs or termination benefits are recognised. Net interest expense (income) for the period is determined by applying the discount rate used to measure the defined benefit obligation at the beginning of the reporting period to the net defined benefit liability (asset). The discount rate is the yield at the end of the reporting period on Government Bonds that have maturity dates approximating the terms of the Group's obligations.

Remeasurements arising from defined benefit retirement plans are recognised in other comprehensive income and reflected immediately in retained earnings. Remeasurements comprise actuarial gains and losses, the return on plan assets (excluding amounts included in net interest on the net defined benefit liability (asset)) and any change in the effect of the asset ceiling (excluding amounts included in net interest on the net defined benefit liability (asset)).

(q) Income tax

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Income tax (Continued)

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

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

Where investment properties are carried at their fair value in accordance with the accounting policy set out in note 1(g), the amount of deferred tax recognised is measured using the tax rates that would apply on sale of those assets at their carrying value at the reporting date unless the property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the property over time, rather than through sale. In all other cases, the amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

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

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Income tax (Continued)

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

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(r) Provisions, contingent liabilities and onerous contracts

(i) Other provisions and contingent liabilities

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

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

(ii) Onerous contracts

An onerous contract exists when the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received from the contract. Provisions for onerous contracts are measured at the present value of the lower of the expected cost of terminating the contract and the net cost of continuing with the contract.

(s) Revenue recognition

Income is classified by the Group as revenue when it arises from the sale of properties, the provision of services or the use by others of the Group's assets under leases in the ordinary course of the Group's business.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Revenue recognition (Continued)

Revenue is recognised when control over a product or service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Where the contract contains a financing component which provides a significant financing benefit to the customer for more than 12 months, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction with the customer, and interest income is accrued separately under the effective interest method. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. The Group takes advantage of the practical expedient of HKFRS 15 and does not adjust the consideration for any effects of a significant financing component if the period of financing is 12 months or less.

Further details of the Group's revenue recognition policies are as follows:

(i) Sale of properties

Revenue arising from the sale of properties developed for sale in the ordinary course of business is recognised when legal assignment is completed, which is the point in time when the customer has the ability to direct the use of the property and obtain substantially all of the remaining benefits of the property. Deposits and instalments received on properties sold prior to the date of revenue recognition were included in the statement of financial position under contract liabilities (see note 1(n)).

When residential properties are marketed by the Group while the property is still under construction, the Group may offer a discount compared to the listed sales price, provided the customer agrees to pay the balance of the consideration early. In such cases, if the advance payments are regarded as providing a significant financing benefit to the Group, interest expense arising from the adjustment of time value of money will be accrued by the Group during the period between the payment date and the completion date of legal assignment. This accrual increases the balance of the contract liability during the period of construction, and therefore increases the amount of revenue recognised when control of the completed property is transferred to the customer. The interest is expensed as accrued unless it is eligible to be capitalised under HKAS 23, *Borrowing costs*.

(ii) Rental income from operating leases

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Revenue recognition (Continued)

(iii) Sale of goods

Revenue is recognised when the customer takes possession of and accepts the products. If the products are a partial fulfilment of a contract covering other goods and/or services, then the amount of revenue recognised is an appropriate proportion of the total transaction price under the contract, allocated between all the goods and services promised under the contract on a relative stand-alone selling price basis.

(iv) Ferry and shipyard operations

Revenue relating to ferry operations is recognised when the relevant ferry services are provided.

Revenue from shipyard operations is recognised when the outcome of a contract can be reasonably measured, revenue from the contract is recognised progressively over time using the cost-to-cost method, i.e. based on the proportion of the actual costs incurred relative to the estimated total costs.

When the outcome of the contract cannot be reasonably measured, revenue is recognised only to the extent of contract costs incurred that are expected to be recovered.

Revenue from shipyard operations was recognised on a similar basis in the comparative period.

(v) Interest income

Interest income is recognised as it accrues using the effective interest method. Effective interest method using the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the gross carrying amount of the financial asset. For financial assets measured at amortised cost or FVOCI (recycling) that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset (see note 1(j)(i)).

(vi) Dividends

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

(t) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. The transaction date is the date on which the Company initially recognises such non-monetary assets or liabilities. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates.

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(u) Related parties

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

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

(B) has significant influence over the Group; or

(C) is a member of the key management personnel of the Group.

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

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

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

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

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

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

(F) The entity is controlled or jointly controlled by a person identified in note (u)(i).

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

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

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

1 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) Segment reporting

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

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

2 CRITICAL ACCOUNTING JUDGEMENTS AND ESTIMATES

Notes 16 and 24 contain information about the assumptions and their risk factors relating to defined benefit retirement obligation and financial instruments. Other key sources of estimation uncertainty and critical accounting judgements in applying the Group's accounting policies are as follows:

(a) Valuation of investment properties

In determining the fair value of the investment properties, the Group has considered information from different sources, including a valuation performed by an independent firm of professional valuers after taking into consideration the net rental income allowing for reversionary income potential, and other available market survey reports.

The assumptions adopted in the property valuations are based on the market conditions existing at the end of the reporting period, with reference to expected future market rents and the appropriate capitalisation rate.

(b) Recognition of deferred tax assets

At 31 December 2018, the Group had recognised deferred tax assets in relation to the unused tax losses amounting to approximately HK$7,033,000 (2017: HK$15,554,000). The realisability of the deferred tax assets mainly depends on whether it is probable that future taxable profits or taxable temporary differences will be available against which related tax benefits under the deferred tax assets can be utilised. In cases where the actual future taxable profits or taxable temporary differences generated are less than expected, a reversal of deferred tax assets may arise, which will be recognised in profit or loss for the period in which such a reversal takes place.

3 SEGMENT INFORMATION

The operating segments are identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segment and to assess its performance.

In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following four reportable segments.

— Property development: development and sale of properties.

— Property investment: rental income from leasing of properties.

— Ferry, shipyard and related operations: income from operation of dangerous goods vehicular ferry service and ship repairs and maintenance services and sales of goods on cruise vessels.

— Securities investment: dividend, interest and other income from listed investments.

Segment information is presented only in respect of the Group's business segments. No geographical analysis is shown as substantially all of the Group's revenue and profit from operations were derived from activities in Hong Kong.

Segment results

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

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

3 SEGMENT INFORMATION (Continued)

The segment information for the years ended 31 December 2018 and 2017 about these reportable segments is presented below:

(a) Segment revenue

	Total revenue		Elimination of inter-segment revenue		Revenue from external customers	
	2018	2017 (restated)	**2018**	2017 (restated)	**2018**	2017 (restated)
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Property development	**783,921**	147,103	**—**	—	**783,921**	147,103
Property investment	**136,738**	132,056	**—**	—	**136,738**	132,056
Ferry, shipyard and related operations	**173,077**	185,597	**1,220**	1,349	**171,857**	184,248
Securities investment	**20,716**	25,760	**—**	—	**20,716**	25,760
Others	**97,728**	77,244	**69,126**	59,421	**28,602**	17,823
	1,212,180	567,760	**70,346**	60,770	**1,141,834**	506,990
Analysed by:						
Revenue					**1,088,563**	447,637
Other revenue					**53,271**	59,353
					1,141,834	506,990

The principal activities of the Group are property development, property investment, ferry, shipyard and related businesses and securities investment.

3 SEGMENT INFORMATION (Continued)

(a) Segment revenue (Continued)

Disaggregation in revenue

Disaggregation of revenue from contracts with customers by major service lines is as follows:

	2018 HK$'000	2017 (restated) HK$'000
Revenue from contracts with customers within the scope of HKFRS 15		
Disaggregated by service lines		
— Property development	**783,656**	141,755
— Revenue from ferry operations	**90,941**	90,459
— Revenue from shipyard operations	**73,578**	90,671
	948,175	322,885
Revenue from other sources		
— Property investment	**99,229**	95,266
— Securities investment	**12,610**	11,663
— Others	**28,549**	17,823
	140,388	124,752
	1,088,563	447,637

Apart from revenue from shipyard which are recognised over time, the Group's other revenue streams within the scope of HKFRS 15 are recognised at a point in time.

Revenue represents gross income from the sale of properties, sales value of goods delivered to customers, income from services rendered, rental income, interest income and dividend income.

At 31 December 2018, the aggregate amount of revenue expected to be recognised in profit or loss in the future from construction and repairing contracts entered into in relation to the Group's shipyard operations amounted to HK$10,394,000, which will be recognised as the work is completed, which is expected to occur over the next 12 months.

3 SEGMENT INFORMATION (Continued)

(b) Segment result

	Reportable segment profit	
	2018	2017 (restated)
	HK$'000	*HK$'000*
Property development	**238,059**	86,785
Property investment *(note 3(d))*	**109,933**	124,989
Ferry, shipyard and related operations	**8,407**	30,279
Securities investment	**16,766**	88,802
Others *(note 3(e))*	**23,718**	11,847
	396,883	342,702

(c) Reconciliation of reportable segment profit

	2018	2017 (restated)
	HK$'000	*HK$'000*
Reportable segment profit derived from external customers	**396,883**	342,702
Share of profits less losses of associates and a joint venture	**874**	825
Profit before taxation in the consolidated statement of profit or loss	**397,757**	343,527

(d) The segment result of the "Property investment" included valuation gains on investment properties of HK$43,885,000 (2017: HK$56,954,000).

(e) "Others" mainly comprises interest income, corporate expenses and exchange gains/losses.

3 SEGMENT INFORMATION (Continued)

(f) Other segment information

	Depreciation and amortisation		Impairment losses		Capital expenditure incurred	
	2018	2017	**2018**	2017	**2018**	2017
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Property investment	**1**	2	**—**	—	**—**	—
Ferry, shipyard and related operations	**6,543**	6,848	**122**	—	**1,817**	2,096
Others	**270**	195	**—**	—	**162**	746
	6,814	7,045	**122**	—	**1,979**	2,842

4 OTHER REVENUE AND NET (LOSS)/INCOME

	2018	2017
	HK$'000	*HK$'000*
Other revenue		
Management fee income	**22,063**	21,227
Air-conditioning charges income	**14,060**	13,895
Other income	**8,592**	6,906
Other interest income	**8,556**	17,325
	53,271	59,353
Other net (loss)/income		
Sundry income	**706**	705
Income from sale of spare parts	**376**	1,241
Net profit on disposal of other financial assets	**86**	—
Net profit on disposal of other property, plant and equipment	**40**	3
Net exchange gains/(losses)	**9**	(29)
Net profit on disposal of available-for-sale securities	**—**	61,522
Net profit on disposal of financial assets designated at FVPL	**—**	2,930
Cost adjustment *(note)*	**—**	106
Change in fair value of other financial assets designated at FVPL	**(2,977)**	—
	(1,760)	66,478

Note: Costs adjustment represents the revision of the original construction costs of the properties completed in prior years, confirmed by the surveyors during the year.

5 PROFIT BEFORE TAXATION

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

(a) Staff costs:

	2018 HK$'000	2017 HK$'000
Expense recognised in respect of defined benefit retirement plan *(note 16 (a)(v))*	**1,337**	1,346
Contributions to defined contribution retirement plan	**2,675**	2,427
Total retirement costs	**4,012**	3,773
Salaries, wages and other benefits	**97,301**	87,389
	101,313	91,162

(b) Other items:

	2018 HK$'000	2017 (restated) HK$'000
Amortisation of leasehold land premium	**1,369**	1,369
Depreciation	**5,445**	5,676
Cost of inventories *(note 17(b))*	**512,935**	53,146
Auditor's remuneration		
– audit services	**1,764**	1,737
– other services	**351**	335
Operating lease charges: minimum lease payments		
– property rentals	**2,734**	2,684
Impairment losses on trade and other receivables	**122**	—
Rentals receivable from investment properties less direct outgoings of HK$54,125,000 (2017: HK$51,340,000) *(note)*	**(45,096)**	(44,096)
Rentals receivable from operating leases, other than those relating to investment properties, less direct outgoings of HK$2,309,000 (2017: HK$1,731,000)	**(887)**	(1,193)
Interest income	**(37,105)**	(35,148)
Dividend income from other financial assets designated at FVPL	**(3,174)**	(390)
Dividend income from other financial assets designated at FVOCI	**(9,436)**	(11,273)

Note: Included contingent rental income of HK$4,054,000 (2017: HK$2,324,000).

6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

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

	2018 HK$'000	2017 (restated) HK$'000
Current tax — Hong Kong Profits Tax		
Provision for the year	**46,847**	27,532
Over-provision in respect of prior years	**(186)**	(175)
	46,661	27,357
Deferred tax		
Origination and reversal of temporary differences	**6,453**	5,045
	53,114	32,402

The provision for Hong Kong Profits Tax for 2018 is calculated at 16.5% (2017: 16.5%) of the estimated assessable profits for the year, taking into account a reduction granted by the Government of Hong Kong Special Administrative Region of 75% of the tax payable for the year of assessment 2017/18 subject to a maximum reduction of HK$30,000 for each business (2017: a maximum reduction of HK$20,000 was granted for the year of assessment 2016/17 and was taken into account in calculating the provision for 2017).

In prior years, the Inland Revenue Department ("IRD") raised additional profits tax assessments on a subsidiary of the Group covering the years of assessment from 2001/02 to 2009/10 as the IRD disallowed the deduction of certain capital expenditure incurred by the subsidiary. Notices of objection were filed with the IRD by the subsidiary. In February 2017, the IRD further raised additional profits tax assessments covering the years of assessment from 2010/11 to 2014/15 in respect of such disallowance. Management has sought advice from the Group's tax adviser and has filed a notice of objection against such additional tax assessments.

6 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS (Continued)

(b) Reconciliation between tax expense and accounting profit at an applicable tax rate:

	2018	2017 (restated)
	HK$'000	*HK$'000*
Profit before taxation	**397,757**	343,527
Notional tax on profit before taxation, calculated at the rates applicable profit in tax jurisdictions concerned	**65,465**	56,682
Tax effect of non-deductible expenses	**1,664**	3,364
Tax effect of non-taxable income	**(13,731)**	(27,099)
Tax effect of current year's tax losses not recognised	**1,051**	1,184
Tax effect of prior years' unrecognised tax losses utilised this year	**(1,187)**	(1,887)
Tax effect of temporary differences on investment properties and other property, plant and equipment	**38**	334
Over-provision in respect of prior years	**(186)**	(176)
Actual tax expense	**53,114**	32,402

7 DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

Directors' and Chief Executive's emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance, Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation and Appendix 16 to the Listing Rules are as follows:

	Directors' fees	
	2018	2017
	HK$'000	*HK$'000*
Executive directors		
Dr. Lam Ko Yin, Colin	**200**	200
Mr. Li Ning	**150**	150
Non-executive directors		
Mr. Au Siu Kee, Alexander	**100**	100
Mr. Lau Yum Chuen, Eddie	**100**	100
Dr. Lee Shau Kee	**100**	100
Mr. Wong Man Kong, Peter (deceased on 11 March 2019)	**100**	100
Independent non-executive directors		
Mr. Ho Hau Chong, Norman	**300**	300
Mr. Leung Hay Man (deceased on 11 October 2018)	**250**	300
Ms. Wong Yu Pok, Marina	**300**	300
Mr. Wu King Cheong	**300**	300
	1,900	1,950

	Salaries and other emoluments	
	2018	2017
	HK$'000	*HK$'000*
Group General Manager		
Dr. Ho Chi Shing, David	**3,684**	3,210

8 EMOLUMENTS OF FIVE HIGHEST PAID INDIVIDUALS AND SENIOR MANAGEMENT

(a) Five highest paid individuals

Of the five individuals with the highest emoluments, one (2017: one) is the chief executive whose emoluments is disclosed in note 7. The aggregate of the emoluments in respect of the remaining four (2017: four) individuals are as follows:

	2018 **HK$'000**	2017 HK$'000
Salaries and other emoluments	**4,404**	4,100
Retirement scheme contributions	**170**	158
	4,574	4,258

The emoluments of the four (2017: four) individuals with the highest emoluments are within the following bands:

HK$	**2018** ***Number of individuals***	2017 *Number of individuals*
1,000,000 or below	**1**	2
1,000,001–1,500,000	**3**	2

(b) Emoluments of senior management

Other than the emoluments of directors, chief executive and five highest paid individuals disclosed in note 7 and 8(a), the emoluments of the remaining senior management whose profiles are provided in Directors' and Senior Management's Profile fell within the following bands:

HK$	**2018** ***Number of individuals***	2017 *Number of individuals*
500,001–1,000,000	**1**	1

9 DIVIDENDS

(a) Dividends payable to equity shareholders of the Company attributable to the year

	2018 HK$'000	2017 HK$'000
Interim dividend declared and paid of HK10 cents (2017: HK10 cents) per ordinary share	**35,627**	35,627
Final dividend proposed after the end of the reporting period of HK28 cents (2017: HK28 cents) per ordinary share	**99,757**	99,757
	135,384	135,384

The final dividend proposed after the end of the reporting period has not been recognised as a liability at the end of the reporting period.

(b) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

	2018 HK$'000	2017 HK$'000
Final dividend in respect of the previous financial year, approved and paid during the year, of HK28 cents (2017: HK26 cents) per ordinary share	**99,757**	92,631

10 EARNINGS PER SHARE

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of HK$344,643,000 (2017(restated): HK$311,125,000) and 356,273,883 (2017: 356,273,883) ordinary shares in issue during the year.

There were no dilutive potential ordinary shares in existence during the years 2018 and 2017, therefore diluted earnings per share are the same as basic earnings per share for both years.

11 INVESTMENT PROPERTIES, OTHER PROPERTY, PLANT AND EQUIPMENT AND LEASEHOLD LAND

	Buildings *HK$'000*	Ferry vessels and other crafts *HK$'000*	Machinery, furniture and others *HK$'000*	Sub-total *HK$'000*	Investment properties *HK$'000*	Interest in leasehold land *HK$'000*	Total *HK$'000*
Cost or valuation:							
At 1 January 2017	73,203	118,077	277,061	468,341	2,050,655	159,407	2,678,403
Additions	501	1,037	1,304	2,842	—	—	2,842
Cost adjustment *(note)*	—	—	—	—	(24)	—	(24)
Disposals	—	—	(203)	(203)	—	—	(203)
Valuation gains	—	—	—	—	56,954	—	56,954
At 31 December 2017	73,704	119,114	278,162	470,980	2,107,585	159,407	2,737,972
Representing:							
Cost	73,704	119,114	278,162	470,980	—	159,407	630,387
Valuation	—	—	—	—	2,107,585	—	2,107,585
	73,704	119,114	278,162	470,980	2,107,585	159,407	2,737,972
Accumulated amortisation and depreciation:							
At 1 January 2017	60,941	116,305	232,138	409,384	—	117,638	527,022
Charge for the year	1,023	681	3,972	5,676	—	1,369	7,045
Written back on disposals	—	—	(203)	(203)	—	—	(203)
At 31 December 2017	61,964	116,986	235,907	414,857	—	119,007	533,864
Net book value:							
At 31 December 2017	11,740	2,128	42,255	56,123	2,107,585	40,400	2,204,108

Note: Cost adjustment represents the revision of the original construction cost of the properties completed in prior years, confirmed by the surveyor during the years ended 31 December 2017.

11 INVESTMENT PROPERTIES, OTHER PROPERTY, PLANT AND EQUIPMENT AND LEASEHOLD LAND (Continued)

	Buildings HK$'000	Ferry vessels and other crafts HK$'000	Machinery, furniture and others HK$'000	Sub-total HK$'000	Investment properties HK$'000	Interest in leasehold land HK$'000	Total HK$'000
Cost or valuation:							
At 1 January 2018	73,704	119,114	278,162	470,980	2,107,585	159,407	2,737,972
Additions	—	290	1,689	1,979	—	—	1,979
Disposals	—	—	(341)	(341)	—	—	(341)
Valuation gains	—	—	—	—	43,885	—	43,885
At 31 December 2018	73,704	119,404	279,510	472,618	2,151,470	159,407	2,783,495
Representing:							
Cost	73,704	119,404	279,510	472,618	—	159,407	632,025
Valuation	—	—	—	—	2,151,470	—	2,151,470
	73,704	119,404	279,510	472,618	2,151,470	159,407	2,783,495
Accumulated amortisation and depreciation:							
At 1 January 2018	61,964	116,986	235,907	414,857	—	119,007	533,864
Charge for the year	722	613	4,110	5,445	—	1,369	6,814
Written back on disposals	—	—	(341)	(341)	—	—	(341)
At 31 December 2018	62,686	117,599	239,676	419,961	—	120,376	540,337
Net book value:							
At 31 December 2018	11,018	1,805	39,834	52,657	2,151,470	39,031	2,243,158

11 INVESTMENT PROPERTIES, OTHER PROPERTY, PLANT AND EQUIPMENT AND LEASEHOLD LAND (Continued)

(a) Fair value measurement of investment properties

(i) Fair value hierarchy

The following table presents the fair value of the Group's investment properties measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

— Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date

— Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available

— Level 3 valuations: Fair value measured using significant unobservable inputs

		Fair value measurements as at 31 December 2018 categorised into		
	Fair value at 31 December 2018	**Level 1**	**Level 2**	**Level 3**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
Recurring fair value measurement				
Investment properties	**2,151,470**	**—**	**—**	**2,151,470**

		Fair value measurements as at 31 December 2017 categorised into		
	Fair value at 31 December 2017	Level 1	Level 2	Level 3
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Recurring fair value measurement				
Investment properties	2,107,585	—	—	2,107,585

11 INVESTMENT PROPERTIES, OTHER PROPERTY, PLANT AND EQUIPMENT AND LEASEHOLD LAND (Continued)

(a) Fair value measurement of investment properties (Continued)

(i) Fair value hierarchy (Continued)

During the year ended 31 December 2018, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (2017: Nil). The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

Valuation process

All the Group's investment properties were revalued as at 31 December 2018. The valuations were carried out by an independent firm of surveyors, Cushman & Wakefield Limited, who have among their staff Members of the Hong Kong Institute of Surveyors with recent experience in the location and category of property being valued, on a market value basis. The management has discussion with the surveyors on the valuation assumptions and valuation results when the valuation is performed at each interim and annual reporting date.

(ii) Information about Level 3 fair value measurements

The fair values of investment properties were determined using income capitalisation approach which capitalised the net income of the properties and taking into account the reversionary potential of properties after expiry of the current leases except for an investment property which was determined using market comparison approach by reference to recent sales price of comparable properties on a price per square foot basis using market data which is publicly available.

Below is a table which presents the significant unobservable inputs:

Income capitalisation approach

	Range of capitalisation rates		Range of occupancy rates	
	2018	2017	**2018**	2017
	%	%	**%**	%
Retail	**3.5%–4.75%**	3.5%–4.75%	**93%–100%**	89%–100%
Car park	**4.5%–7%**	4.63%–7%	**67%–100%**	51%–96%

Market comparison approach

	Market unit sales price	
	2018	2017
	HK$/sq. ft.	*HK$/sq. ft.*
Godown	**477–560**	579–870

11 INVESTMENT PROPERTIES, OTHER PROPERTY, PLANT AND EQUIPMENT AND LEASEHOLD LAND (Continued)

(a) Fair value measurement of investment properties (Continued)

(ii) Information about Level 3 fair value measurements (Continued)

The fair value measurement of investment properties is positively correlated to the occupancy rate and market unit sales price and negatively correlated to the capitalisation rate.

The movements during the year in the balance of these Level 3 fair value measurements are as follows:

	2018 HK$'000	2017 HK$'000
Investment properties		
At 1 January	**2,107,585**	2,050,655
Cost adjustment	**–**	(24)
Valuation gains	**43,885**	56,954
At 31 December	**2,151,470**	2,107,585

Fair value adjustment of investment properties is recognised in the line item "valuation gains on investment properties" on the face of the consolidated statement of profit or loss.

All the gains recognised in profit or loss for the year arise from the properties held at the end of the reporting period.

(b) The analysis of the net book value of all the properties, which are held in Hong Kong, is as follows:

	2018 HK$'000	2017 HK$'000
Medium-term leases	**2,201,519**	2,159,725

11 INVESTMENT PROPERTIES, OTHER PROPERTY, PLANT AND EQUIPMENT AND LEASEHOLD LAND (Continued)

(c) The Group leases out investment properties under operating leases. The leases typically run for an initial period of one month to six years, with an option to renew the lease after that date at which time all terms are renegotiated. Certain of the leases include contingent rentals calculated with reference to the revenue of tenants.

All properties held under operating leases that would otherwise meet the definition of investment properties are classified as investment properties.

The Group's total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	2018	2017
	HK$'000	*HK$'000*
Within 1 year	**69,235**	66,208
After 1 year but within 5 years	**72,395**	52,318
After 5 years	**4,400**	9,200
	146,030	127,726

12 INTEREST IN SUBSIDIARIES

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

	Particulars of issued and paid up capital	Proportion of ownership interests: Held by the Company	Proportion of ownership interests: Held by subsidiaries	Principal activities
HYFCO Development Company, Limited	1,200,003 shares	100%	–	Investment holding
The Hong Kong Shipyard Limited	170,000 shares	100%	–	Shipbuilding and repairs
HYFCO Trading and Investments Company Limited	2 shares	100%	–	Trading
HYFCO Estate Management & Agency Limited	2,500,000 shares	100%	–	Property management
The Hongkong and Yaumati Ferry Company Limited	1,000,000 shares	100%	–	Ferry operations
Galaxy Hotel Management Company Limited	1,000,000 shares	—	100%	Floating restaurant business
Genius Star Development Limited	2 shares	100%	–	Property investment
Pico International Limited	6,000,000 shares	100%	–	Investment holding
Hong Kong Ferry Finance Company Limited	2 shares	100%	–	Funding for group companies
Thommen Limited	2 shares	100%	–	Investment holding
Lenfield Limited	2 shares	100%	–	Property development, investment and financing
HKF Property Investment Limited	2 shares	100%	–	Property investment
Join Galaxy Limited	2 shares	–	100%	Property financing
Merry World Assets Limited	50,000 shares	100%	–	Investment holding
Jet Legend Limited	1 share	100%	–	Property development and financing
World Light Limited	1 share	100%	–	Property development, investment and financing
Well Dynamic Limited	1 share	100%	–	Property development, investment and financing
World Fame Shipping Limited	2 shares	100%	–	Property development

All the subsidiaries listed above are incorporated in Hong Kong except for Merry World Assets Limited which is incorporated in the British Virgin Islands.

13 INTEREST IN ASSOCIATES

	2018 **HK$'000**	2017 *HK$'000*
Share of net assets	**71**	147
Amounts due from associates	**14,771**	15,756
	14,842	15,903
Less: impairment loss	**(6,794)**	(6,794)
	8,048	9,109

Except for the amount advanced to 2OK Company Limited ("2OK") which is interest-bearing at Hong Kong dollar prime rate minus 3% (2017: Hong Kong dollar prime rate minus 3%) per annum, as disclosed in note 28(b)(ii), all of the amounts due from associates are unsecured, interest-free and have no fixed terms of repayment. All the amounts due from associates are not expected to be recovered within one year.

The following list contains the particulars of associates, all of which are unlisted corporate entities whose quoted market price is not available:

	Particulars of issued and paid up capital	**Proportion of ownership interest held by subsidiaries**	**Principal activities**
2OK	10 ordinary shares	50%	Property financing
Authian Estates Limited	5,000 A shares 5,000 B shares	50%	Property investment
Winwide Limited	100 ordinary shares	30%	Trading

All of the associates are incorporated and operate in Hong Kong.

All of the above associates are accounted for using the equity method in the consolidated financial statements.

13 INTEREST IN ASSOCIATES (Continued)

Aggregate information of associates that are not individually material:

	2018 HK$'000	2017 HK$'000
Aggregate carrying amount of individually immaterial associates in the consolidated financial statements	**71**	147
Aggregate amounts of the Group's share of those associates'		
Profit for the year	**1,005**	926
Total comprehensive income	**1,005**	926

14 INTEREST IN A JOINT VENTURE

	2018 HK$'000	2017 HK$'000
Share of net liabilities	**(237)**	(105)
Loan to a joint venture	**1,364,400**	1,364,400
	1,364,163	1,364,295

The loan to a joint venture is unsecured, interest-bearing at a rate to be agreed by the Group and the joint venture partner and recoverable on demand. The balance is not expected to be recovered within one year. During the years and as at 31 December 2018 and 2017, the balance did not bear any interest.

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

Name of joint venture	Form of business structure	Place of incorporation and business	Particulars of issued capital	Proportion of ownership interest held by subsidiaries	Principal activity
Win Standard Enterprises Limited	Incorporated	Hong Kong	10,000 ordinary shares	50%	Property development

The joint venture is an unlisted corporate entity whose quoted market price is not available.

14 INTEREST IN A JOINT VENTURE (Continued)

Summarised financial information of the joint venture, adjusted for any differences in accounting policies, and a reconciliation to the carrying amount in the consolidated financial statements, are disclosed below:

Gross amounts of the joint venture's	2018 HK$'000	2017 HK$'000
Current assets	2,909,697	2,780,597
Non-current assets	—	—
Current liabilities	(109,038)	(52,007)
Non-current liabilities	(2,801,132)	(2,728,800)
Equity	(473)	(210)
Included in the above assets and liabilities:		
Cash and cash equivalents	10,511	—
Current financial liabilities (excluding trade and other payables and provisions)	(52,957)	(50,757)
Non-current financial liabilities (excluding trade and other payables and provisions)	(2,801,132)	(2,728,800)
Revenue	—	—
Loss for the year	(263)	(201)
Other comprehensive income	—	—
Total comprehensive income	(263)	(201)

No depreciation and amortisation, interest income, income expenses and income tax expenses is included in the above profit.

	2018 HK$'000	2017 HK$'000
Reconciled to Group's interest in the joint venture		
Gross amounts of the joint venture's net liabilities	(474)	(210)
Group's effective interest	50%	50%
Group's share of the joint venture's net liabilities	(237)	(105)

15 OTHER FINANCIAL ASSETS

	Notes	2018 HK$'000	2017 HK$'000
Financial assets designated at FVOCI (non-recycling)	(i)		
— Equity securities listed in Hong Kong		**136,160**	—
Financial assets designated at FVOCI (recycling)			
— Listed debt securities inside Hong Kong		**39,671**	—
— Listed debt securities outside Hong Kong		**58,864**	—
Financial assets designated at FVPL			
— Unit trust listed in Hong Kong		**102,609**	—
		337,304	—
Available-for-sale financial assets			
— Listed debt securities inside Hong Kong	(ii)	**—**	40,980
— Listed debt securities outside Hong Kong		**—**	135,326
		337,304	176,306
Market value of listed securities at 31 December		**337,304**	176,306

Notes:

(i) The Group has designated certain investments as equity securities designated as financial assets at FVOCI (non-recycling) as the investments are held for strategic purposes. Details of the investments are as follows:

Name of equity securities	HK$'000
HSBC Holdings Plc	**84,240**
Bank of China Ltd	**34,770**
Agricultural Bank of China Limited	**17,150**
As at 31 December 2018	**136,160**

(ii) Available-for-sale financial assets were reclassified to financial assets designated at FVOCI (recycling) upon the initial application of HKFRS 9 at 1 January 2018 (see note 1(c)(i)).

16 NET EMPLOYEE RETIREMENT BENEFITS LIABILITIES

(a) Defined benefit retirement plan

The Group makes contributions to a defined benefit retirement plan registered under the Occupational Retirement Schemes Ordinance (Chapter 426 of the Laws of Hong Kong), which covers 10.8% (2017: 11.2%) of the Group's employees. The plan is administered by independent trustees with their assets held separately from those of the Group.

The plan is funded by contributions from the Group in accordance with an independent actuary's recommendation based on annual actuarial valuations. The latest independent actuarial valuation of the plan was at 31 December 2018 and was prepared by qualified staff of Towers Watson Hong Kong Limited, who are members of recognised actuarial bodies, using the projected unit credit method. The actuarial valuation indicates that 89.6% (2017: 91.9%) of the Group's obligations under the defined benefit retirement plan are covered by the plan assets held by the trustees.

The plan exposes the Group to actuarial risks, such as interest rate risk, investment risk and longevity risk. Information about the plan is disclosed below:

(i) The amounts recognised in the consolidated statement of financial position are as follows:

	2018 **HK$'000**	2017 HK$'000
Present value of wholly or partly funded obligations	**(38,643)**	(37,109)
Fair value of plan assets	**34,640**	34,085
	(4,003)	(3,024)

The plan assets do not include any share issued by the Company or any property occupied by the Group.

A portion of the above liability is expected to be settled after more than one year. However, it is not practicable to segregate this amount from the amounts payable in the next twelve months, as future contributions will also relate to future services rendered and future changes in actuarial assumptions and market conditions. The Group expects to pay HK$712,000 in contributions to defined benefit retirement plan in 2019.

16 NET EMPLOYEE RETIREMENT BENEFITS LIABILITIES (Continued)

(a) Defined benefit retirement plan (Continued)

(ii) Plan assets consist of the following:

	2018	2017
Equity securities	38.3%	41.8%
Fixed deposits	61.7%	58.2%
Total	100.0%	100.0%

All of the equity securities have quoted prices in active markets.

(iii) Movements in the present value of the defined benefit obligations:

	2018 HK$'000	2017 HK$'000
At 1 January	37,109	35,312
Remeasurements:		
— Actuarial (gain)/loss arising from changes in financial assumptions	(500)	273
— Actuarial loss/(gain) arising from changes in experience	219	(63)
— Actuarial loss/(gain) arising from change in demographic assumptions	6	(3)
	(275)	207
Current service cost	1,180	1,160
Interest cost	629	633
Benefits paid by the plan	—	(203)
At 31 December	38,643	37,109

16 NET EMPLOYEE RETIREMENT BENEFITS LIABILITIES (Continued)

(a) Defined benefit retirement plan (Continued)

(iv) Movements in plan assets:

	2018 HK$'000	2017 HK$'000
At 1 January	**34,085**	30,844
Interest income	**583**	559
Return (less)/greater than discount rate	**(604)**	2,332
Benefits paid by the plan	**—**	(203)
Administrative expenses paid	**(111)**	(112)
Contributions paid to the plan	**687**	665
At 31 December	**34,640**	34,085

(v) Amounts recognised in the consolidated statement of profit or loss and other comprehensive income are as follows:

	2018 HK$'000	2017 HK$'000
Current service cost	**1,180**	1,160
Net interest on net defined benefit liability	**46**	74
Administrative expenses paid	**111**	112
Total amounts recognised in profit or loss	**1,337**	1,346
Actuarial (gain)/loss	**(275)**	207
Return on plan assets, excluding interest income	**604**	(2,332)
Total amounts recognised in other comprehensive income	**329**	(2,125)
Total defined benefit costs	**1,666**	(779)

16 NET EMPLOYEE RETIREMENT BENEFITS LIABILITIES (Continued)

(a) Defined benefit retirement plan (Continued)

(v) (Continued)

The current service cost, the net income on defined benefit liability and the administrative expenses paid are recognised in the following item in the consolidated statement of profit or loss:

	2018 HK$'000	2017 HK$'000
Administrative expenses	1,337	1,346

(vi) Significant actuarial assumptions (expressed as weighted averages) and sensitivity analysis are as follows:

	2018	2017
Discount rate	1.9%	1.7%
Long-term salary increase rate	3.5%	3.5%

The below analysis shows how the net defined benefit liability would have (increased)/decreased as a result of 0.25% change in the significant actuarial assumptions:

	Increase in 0.25%		Decrease in 0.25%	
	2018 HK$'000	2017 HK$'000	2018 HK$'000	2017 HK$'000
Discount rate	611	677	(628)	(697)
Future salary	(587)	(649)	574	634

The above sensitivity analysis is based on the assumption that changes in actuarial assumptions are not correlated and therefore it does not take into account the correlations between the actuarial assumptions.

(b) Defined contribution retirement plan

The Group also operates a Mandatory Provident Fund Scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance and not previously covered by the defined benefit retirement plan. The MPF scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$30,000. Contributions to the plan vest immediately.

17 INVENTORIES

(a) Inventories in the consolidated statement of financial position comprise:

	2018 HK$'000	2017 (restated) HK$'000
Property development		
Properties under development for sale	**1,033,957**	442,712
Completed properties held for sale	**71,243**	115,529
	1,105,200	558,241
Other operations		
Trading stocks	**1,544**	1,975
Spare parts and consumables	**1,327**	1,080
Contract assets	**8,137**	13,750
	11,008	16,805
	1,116,208	575,046

The above properties are situated in Hong Kong and held under medium-term leases.

All of the inventories are expected to be recovered within one year.

(b) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	2018 HK$'000	2017 (restated) HK$'000
Carrying amount of inventories sold	**512,935**	53,146

18 TRADE AND OTHER RECEIVABLES

	2018 HK$'000	2017 (restated) HK$'000
Trade receivables	**296,483**	295,097
Less: allowance for doubtful debts	**(2,185)**	(2,151)
	294,298	292,946
Cash held by stakeholders	**—**	120,675
Other receivables and prepayments	**40,446**	190,538
Amount due from a joint venture	**26,490**	25,374
	361,234	629,533

All of the trade and other receivables except for instalment receivables of HK$208,332,000 (2017: HK$220,829,000) are expected to be recovered or recognised as expense within one year. Included in the trade and other receivables are amounts due from related companies of HK$56,685,000 (2017: HK$54,889,000) which are unsecured, interest-free and have no fixed terms of repayment.

The amount due from a joint venture is unsecured, interest-bearing at a rate to be agreed by the Group and the joint venture partner and has no fixed terms of repayment. During the years and as at 31 December 2018 and 2017, the balance did not bear any interest.

(a) Ageing analysis

Included in trade and other receivables are trade debtors (net of allowance for doubtful debts) with the following ageing analysis based on due date at the end of the reporting period:

	2018 HK$'000	2017 (restated) HK$'000
Current	**250,963**	260,255
1 to 3 months overdue	**34,558**	27,137
More than 3 months but less than 12 months overdue	**5,375**	3,518
More than 12 months overdue	**3,402**	2,036
	294,298	292,946

Trade debtors are due ranging from 7 to 45 days from the date of billing. Debtors with balances that are more than 60 days overdue are generally required to settle all outstanding balances before any further credit is granted. Further details on the Group's credit policy are set out in note 24(a).

18 TRADE AND OTHER RECEIVABLES (Continued)

(b) Impairment of trade debtors

Impairment losses in respect of trade debtors are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade debtors directly (see note 1(j)(i)).

The movement in the allowance for doubtful debts during the year is as follows:

	2018 **HK$'000**	2017 HK$'000
At 1 January	**2,151**	2,151
Impairment losses recognised	**122**	—
Uncollectible amount written off	**(88)**	—
At 31 December	**2,185**	2,151

At 31 December 2018, the Group's trade debtors of HK$2,185,000 (2017: HK$2,151,000) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that recovery of the receivables is considered doubtful. Consequently, specific allowances for doubtful debts of HK$2,185,000 (2017: HK$2,151,000) were recognised.

(c) Trade debtors that are not impaired

The ageing analysis of trade debtors that are neither individually nor collectively considered to be impaired are as follows:

	2018 **HK$'000**	2017 (restated) HK$'000
Neither overdue nor impaired	**250,963**	260,255
1 to 3 months overdue	**34,558**	27,137
More than 3 months but less than 12 months overdue	**5,375**	3,518
More than 12 months overdue	**3,402**	2,036
	43,335	32,691
	294,298	292,946

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

18 TRADE AND OTHER RECEIVABLES (Continued)

(c) Trade debtors that are not impaired (Continued)

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

19 CASH AND BANK BALANCES

(a)

	2018 **HK$'000**	2017 HK$'000
Deposits with banks and other financial institutions	**883,967**	1,771,616
Cash at bank and in hand	**19,395**	20,063
Cash and bank balances in the consolidated statement of financial position	**903,362**	1,791,679
Less: Bank deposits with maturity over three months at acquisition	**(487,938)**	—
Cash and cash equivalents in the consolidated cash flow statement	**415,424**	1,791,679

Included in cash and bank balances are the following amounts denominated in a currency other than Hong Kong dollars:

	2018 **'000**	2017 '000
United States dollars	**USD 62**	USD 4
Renminbi	**RMB 46**	RMB 44

(b) Major non-cash transactions

During the year ended 31 December 2018, the Group has payable in relation to additions of properties under development for sale of HK$2,317,000 (2017: HK$5,444,000). This addition has no cash flow impact to the Group.

20 TRADE AND OTHER PAYABLES

All of the trade and other payables except for an amount of HK$12,783,000 (2017: HK$10,743,000) are expected to be settled within one year. Included in the trade and other payables are amounts due to related companies of HK$58,502,000 (2017: HK$77,154,000) which are unsecured, interest-free and repayable within 30-45 days or have no fixed terms of repayment.

Included in trade and other payables are trade payables with the following ageing analysis based on due date at the end of the reporting period:

	2018	2017 (restated)
	HK$'000	HK$'000
Due within 1 month or on demand	80,808	105,934
Due after 1 month but within 3 months	1,614	1,274
Due after 3 months but within 12 months	21	—
More than 12 months	8	9
	82,451	107,217

21 CONTRACT LIABILITIES

The Group receives deposits from customers when they sign the sale and purchase agreement relating to property sales. The deposits are recognised as contract liabilities until the properties are completed and legally assigned to the customers.

However, depending on market conditions, the Group may offer customers a discount compared to the listed sales price, provided that the customers agree to pay the balance of the sale consideration early while construction is still ongoing, rather than upon legal assignment. Such advance payment schemes result in contract liabilities being recognised throughout the remaining property construction period for the full amount of the sale consideration.

As at 31 December 2018, deposits for customers in relation to property sales amounted to HK$Nil (2017: HK$592,626,000). Movement of these deposits during the year ended 31 December 2018 represented a decrease in contract liabilities as a result of recognising revenue.

22 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) Tax payable/(recoverable) in the consolidated statement of financial position represents:

	2018	2017 (restated)
	HK$'000	HK$'000
Provision for Hong Kong Profits Tax for the year	**46,847**	27,274
Provisional Profits Tax paid	**(24,792)**	(33,088)
	22,055	(5,814)
Balance of Hong Kong Profits Tax recoverable relating to prior years	**(18,086)**	(14,539)
	3,969	(20,353)

Represented by:

	2018	2017 (restated)
	HK$'000	*HK$'000*
Tax recoverable	**(37,349)**	(36,583)
Tax payable	**41,318**	16,230
	3,969	(20,353)

22 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

(b) Deferred tax assets and liabilities recognised:

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

Deferred tax arising from:	Temporary differences from investment properties and other property, plant and equipment	Future benefit of tax losses	Intra-group interest capitalised in properties under development (restated)	Total (restated)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2017	50,274	(2,507)	(2,953)	44,814
Charged/(credited) to profit or loss *(note 6(a))*	5,106	(61)	—	5,045
At 31 December 2017 and 1 January 2018	**55,380**	**(2,568)**	**(2,953)**	**49,859**
Charged to profit or loss *(note 6(a))*	**4,953**	**1,242**	**258**	**6,453**
At 31 December 2018	**60,333**	**(1,326)**	**(2,695)**	**56,312**

	2018	2017 (restated)
	HK$'000	*HK$'000*
Represented by:		
Net deferred tax asset recognised in the consolidated statement of financial position	**(3,618)**	(5,294)
Net deferred tax liability recognised in the consolidated statement of financial position	**59,930**	55,153
	56,312	49,859

22 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

(c) Deferred tax assets not recognised:

In accordance with the accounting policy set out in note 1(q), the Group has not recognised the following deferred tax assets in respect of deductible temporary differences and cumulative tax losses as it is not probable that future taxable profits against which the deductible temporary differences and tax losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses do not expire under current tax legislation.

	2018		2017	
	Deductible temporary differences/ tax losses	**Deferred tax assets**	Deductible temporary differences/ tax losses	Deferred tax assets
	HK$'000	***HK$'000***	*HK$'000*	*HK$'000*
(i) Excess of tax written down values over accounting carrying values of other property, plant and equipment	**114**	**19**	467	77
(ii) Tax losses	**114,720**	**18,929**	119,297	19,684
	114,834	**18,948**	119,764	19,761

23 CAPITAL AND RESERVES

(a) Movements in components of equity

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

The Company

	Note	Share capital HK$'000 (note 23(b))	Retained profits HK$'000	Total HK$'000
Balance at 1 January 2017		1,754,801	1,039,200	2,794,001
Changes in equity for 2017:				
Profit for the year		–	15,308	15,308
Other comprehensive income		–	2,125	2,125
Total comprehensive income		–	17,433	17,433
Dividends approved in respect of the previous year	9	–	(92,631)	(92,631)
Dividends declared in respect of the current year	9	–	(35,627)	(35,627)
Balance at 31 December 2017 and 1 January 2018		**1,754,801**	**928,375**	**2,683,176**
Changes in equity for 2018:				
Profit for the year		**–**	**41,375**	**41,375**
Other comprehensive income		**–**	**(329)**	**(329)**
Total comprehensive income		**–**	**41,046**	**41,046**
Dividends approved in respect of the previous year	9	**–**	**(99,757)**	**(99,757)**
Dividends declared in respect of the current year	9	**–**	**(35,627)**	**(35,627)**
Balance at 31 December 2018		**1,754,801**	**834,037**	**2,588,838**

23 CAPITAL AND RESERVES (Continued)

(b) Share capital

	2018		2017	
	Number of shares	***HK$'000***	*Number of shares*	*HK$'000*
Ordinary shares, issued and fully paid:				
At 1 January/31 December	**356,273,883**	**1,754,801**	356,273,883	1,754,801

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

(c) Nature and purpose of reserves

(i) Securities revaluation reserve (recycling)

The securities revaluation reserve (recycling) comprises the cumulative net change in the fair value of debt securities measured at FVOCI under HKFRS 9 held at the end of the reporting period (see note 1(f)). Prior to 1 January 2018, this reserve included the cumulative net change in the fair value of available-for-sale financial assets held at the end of the reporting period in accordance with HKAS 39. This amount has been reclassified to fair value reserve (recycling) upon the initial adoption of HKFRS 9 at 1 January 2018 (see note 1(c)(i)).

(ii) Securities revaluation reserve (non-recycling)

The securities revaluation reserve (non-recycling) comprises the cumulative net change in the fair value of equity investments designated at FVOCI under HKFRS 9 that are held at the end of the reporting period (see note 1(f)).

(iii) Other capital reserves

The other capital reserves comprise the unrealised profit on inter-company interest capitalised under investment properties.

23 CAPITAL AND RESERVES (Continued)

(d) Distributability of reserves

At 31 December 2018, the aggregate amount of reserves available for distribution to equity shareholders of the Company, as calculated under the provisions of Part 6 of the Hong Kong Companies Ordinance, was HK$366,867,000 (2017: HK$461,158,000). After the end of the reporting period the directors proposed a final dividend of HK28 cents (2017: HK28 cents) per ordinary share, amounting to HK$99,757,000 (2017: HK$99,757,000) (note 9). This dividend has not been recognised as a liability at the end of the reporting period.

(e) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern and ensure that it maintains a healthy capital ratio in order to support its business and provide returns for shareholders.

The Group actively and regularly reviews and manages its capital structure under the policy of prudent financial management. The Group maintains a financially sound capital position and, where appropriate, makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended 31 December 2018 and 2017.

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

24 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

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

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

(a) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligation resulting in a financial loss to the Group.

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

24 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(a) Credit risk (Continued)

Cash is deposited with financial institutions with sound credit ratings and the Group has exposure limit to any single financial institution. Given their high credit ratings, management does not expect any of these financial institutions will fail to meet their obligations.

Regular review and follow-up actions are carried out on overdue amounts of instalments receivable from sale of properties which enable management to assess their recoverability and to minimise the exposure to credit risk. In respect of other trade receivables, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Trade receivables are due ranging from 7 to 45 days from the date of billing. Debtors with balances that are more than 60 days overdue are requested to settle all outstanding balances before any further credit is granted. Normally, the Group does not obtain collateral from customers. Due to the short duration of the trade receivables, the ECL allowance is considered insignificant.

The Group's exposure to credit risk is not influenced by the individual characteristics of each customer as the Group does not have a certain concentration of credit risk of the total trade and other receivables.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the statement of financial positions. Except for the financial guarantees given by the Group as set out in note 27, the Group does not provide any other guarantees to third parties which would expose the Group to credit risk.

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

(b) Liquidity risk

The treasury functions of the Group is centralised at the head office. Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loan to cover expected cash demands, subject to approval by the Company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor its liquidity requirements, to ensure that it maintains sufficient reserves of cash from major financial institutions to meet its liquidity requirements in the short and longer term.

24 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(b) Liquidity risk (Continued)

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

	2018 Contractual undiscounted cash outflow					
	Within 1 year or on demand	**More than 1 year but less than 2 years**	**More than 2 years but less than 5 years**	**More than 5 years**	**Total**	**Carrying amount at 31 December**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***	***HK$'000***
Trade and other payables	**126,262**	**5,385**	**5,998**	**1,400**	**139,045**	**139,045**

	2017 Contractual undiscounted cash outflow					
	Within 1 year or on demand (restated)	More than 1 year but less than 2 years	More than 2 years but less than 5 years	More than 5 years	Total (restated)	Carrying amount at 31 December (restated)
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Trade and other payables	147,290	6,842	2,341	1,560	158,033	158,033

(c) Currency risk

The Group has no significant exposure to foreign currency risk given its large asset base and operational cash flow are primarily denominated in Hong Kong dollars.

(d) Equity price risk

The Group is exposed to equity price change arising from other financial assets designated through FVOCI and FVPL held for non-trading purposes (see note 15).

Listed investments held by the Group have been chosen based on their longer term growth potential and are monitored regularly for performance against expectations.

Sensitivity analysis

At 31 December 2018, it is estimated that an increase/decrease of 10% (2017: 10%) in the market prices of equity and debt investments in other financial assets, with all other variables held constant would have increased/decreased the securities revaluation reserve by approximately HK$33,730,000 (2017: HK$17,631,000).

24 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

(d) Equity price risk (Continued)

Sensitivity analysis (Continued)

The sensitivity analysis indicates the instantaneous change in the Group's profit after tax (and retained profits) and other components of consolidated equity that would arise assuming that the changes in the stock market index or other relevant risk variables had occurred at the end of the reporting period and had been applied to re-measure those financial instruments held by the Group which expose the Group to equity price risk at the end of the reporting period. It is also assumed that none of the Group's other financial assets would be considered impaired as a result of the decrease in the relevant stock market index or other relevant risk variables, and that all other variables remain constant.

(e) Fair value measurement

(i) Financial assets measured at fair value

Fair value hierarchy

The fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorized into the three-level fair value hierarchy as defined in HKFRS 13, *Fair value measurement*.

The fair value measurements of the Group's financial assets as at 31 December 2018 and 31 December 2017 are categorised into Level 1. During the year ended 31 December 2018, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3 (2017: Nil). The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

(ii) Fair values of financial assets and liabilities carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2018 and 2017.

25 OPERATING LEASE COMMITMENTS

At 31 December 2018, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2018	2017
	HK$'000	*HK$'000*
Within 1 year	**1,420**	2,141
After 1 year but within 5 years	**78**	1,399
	1,498	3,540

The Group leases a number of retail outlets and offices under operating leases. The leases typically run for an initial period of one to three years. Lease payments are usually fixed during the period of the leases. None of the leases includes contingent rentals.

26 CAPITAL COMMITMENTS

Capital commitments outstanding at 31 December 2018 not provided for in the financial statements were as follows:

	2018	2017
	HK$'000	*HK$'000*
Contracted for	**106,740**	18,267
Authorised but not contracted for	**682,596**	891
	789,336	19,158

27 CONTINGENT LIABILITIES

Financial guarantees issued

At 31 December 2018, the Company has issued the following guarantees:

(a) guarantees to certain suppliers in respect of granting or giving credit facilities to its wholly-owned subsidiaries; and

(b) guarantees to banks in respect of banking facilities granted to its wholly-owned subsidiaries and a joint venture.

Under the guarantees, the Company is liable to the amount due from the subsidiaries and the joint venture to these respective parties in the event of any default and its liability shall at no time exceed the sum stated on the letters of guarantee.

At the end of the reporting period, the directors do not consider it probable that a claim will be made against the Company under any of the guarantees. The maximum liability of the Company at the end of the reporting period under the guarantees issued above is the outstanding amount due to the relevant parties by its wholly-owned subsidiaries and the joint venture, being HK$36,244,000 (2017: HK$90,000).

The Company has not recognised any deferred income in respect of the guarantees issued as its fair value cannot be reliably measured using observable market data and its transaction price was HK$Nil.

28 MATERIAL RELATED PARTY AND CONNECTED TRANSACTIONS

(a) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to certain of the Company's directors, chief executive and the highest paid employees as disclosed in notes 7 and 8 respectively, is as follows:

	2018 HK$'000	2017 HK$'000
Short-term employee benefits	6,491	5,857
Post-employment benefits	123	115
	6,614	5,972

Total remuneration is included in "staff costs" (see note 5(a)).

(b) Other material related party and connected transactions

(i) In 1999, the Group entered into a development agreement (the "Agreement") with Henderson Land Development Company Limited ("HLD") and two wholly-owned subsidiaries of HLD ("HLD Sub 1" and "HLD Sub 2"), whereby HLD Sub 1 and HLD Sub 2 acquired the right to 50% of any proceeds from the future sale of the residential portion of the redevelopment of Metro Harbour View, Kowloon Inland Lot No. 11127 (the "MHV Property") for a consideration of HK$1,500,000,000.

As part of the Agreement, HLD Sub 1 and HLD Sub 2 agreed to reimburse the Group 50% of its development expenditures relating to the residential portion of the MHV Property. At 31 December 2018, an amount of HK$286,000 (2017: HK$276,000) remained unpaid and was included in trade and other receivables.

In February 2017, the Group entered into a deed of novation (the "Deed of Novation") with HLD, HLD Sub 1 and HLD Sub 2 pursuant to which HLD Sub 1 transferred and assigned unto HLD Sub 2, and HLD Sub 2 took and assumed all of the rights and obligations of the HLD Sub 1 under the Agreement subject to the terms and conditions as stated in the Deed of Novation. The Deed of Novation was supplemental to the Agreement.

28 MATERIAL RELATED PARTY AND CONNECTED TRANSACTIONS (Continued)

(b) Other material related party and connected transactions (Continued)

(ii) In December 2001, a wholly-owned subsidiary of the Company acquired 50% equity interest in 2OK Company Limited ("2OK") which was set up to provide mortgage loans to the residential unit buyers of the MHV Property. HLD through its subsidiary beneficially owned the remaining 50% equity interest in 2OK at 31 December 2018. During the year, the Group received management and administrative fees in the total of HK$Nil (2017: HK$100,000) from 2OK. The Group and HLD Sub have made advances to 2OK to finance the latter's mortgage operation and interest was charged on amounts advanced. During the year, the Group received interest amounting to HK$78,000 (2017: HK$91,000) from 2OK. At 31 December 2018, the amount advanced by the Group totalling HK$3,107,000 (2017: HK$4,031,000) is in proportion to the Group's equity interest in 2OK and is unsecured and has no fixed repayment terms.

(iii) In December 2002, the Group appointed a wholly-owned subsidiary of HLD ("HLD Sub A") as the leasing and promotion agent of the commercial arcade of the MHV Property, Metro Harbour Plaza ("MHP"), for an initial term of two years at the remuneration of 5% of the monthly rental income from MHP and such agreement shall thereafter be renewable on the same terms from year to year until terminated by either party by giving three months' prior notice in writing. An amount of HK$2,105,000 (2017: HK$2,047,000) was charged to the Group for the year. At 31 December 2018, an amount of HK$1,058,000 (2017: HK$1,047,000) remained unpaid and was included in trade and other payables.

As the aforementioned agreement was renewable on the yearly basis until terminated by either party, the Group had monitored the receipt of the funds during the year.

(iv) In May 2006, the Group appointed a wholly-owned subsidiary of HLD ("HLD Sub C") as the main contractor for a fee of 5% on all works relating to the development of Shining Heights, Nos. 220-222 Tai Kok Tsui Road, Kowloon, Hong Kong. The aggregate of the cost of works carried out by the main contractor or any connected persons (as defined in the Listing Rules) of the Group together with the 5% fee were subject to each annual ceiling of HK$16,000,000 up to the period end of 31 March 2009. In September 2009, the prime cost contract extension letter was signed which all the terms and conditions remain unchanged except to extend the period of payment for the respective ceiling of HK$5,500,000 and HK$6,500,000 for the nine months ended 31 December 2009 and for the year ended 31 December 2010 respectively.

During the years ended 31 December 2018 and 2017, there were no change in cost estimates. At 31 December 2018, an amount of HK$2,294,000 (2017: HK$2,294,000), which included amounts payable to other subcontractors through this main contractor, remained unpaid and was included in trade and other payables.

28 MATERIAL RELATED PARTY AND CONNECTED TRANSACTIONS (Continued)

(b) Other material related party and connected transactions (Continued)

(v) In March 2011, the Group appointed a wholly-owned subsidiary of HLD ("HLD Sub D") as the main contractor for a fee of 5% on all works relating to the development of Green Code at No. 1 Ma Sik Road, Fanling, New Territories, Hong Kong (formerly known as Fanling Sheung Shui Town Lot No. 177). The aggregate of the cost of works carried out by the main contractor or any connected persons (as defined in the Listing Rules) of the Company together with the 5% fee were subject to the total ceilings of the respective years.

In October 2014, the Group entered into a Fanling Prime Cost Contract Extension Letter with HLD Sub D to extend the period of payment of fees for the respective ceilings of HK$6,800,000 and HK$19,000,000 for the period from 1 June 2014 to 31 December 2014 and for the year ended 31 December 2015 respectively. During the years ended 31 December 2018 and 2017, there were no change in cost estimates. At 31 December 2018, an amount of HK$14,725,000 (2017: HK$14,725,000), which included amounts payable to other subcontractors through this main contractor, remained unpaid and was included in trade and other payables.

Under the term of Fanling Prime Cost Contract Extension Letter, the contract expired in December 2015.

(vi) In January 2017, the Group appointed a wholly-owned subsidiary of HLD ("HLD Sub B") as the sales manager of the development of Hung Hom Inland Lot No. 555, Kowloon, Hong Kong located at the junction of Gillies Avenue South and Bulkeley Street, Hung Hom, Kowloon, Hong Kong (the "Hung Hom Property") for a term of one year commencing from 1 January 2017 in consideration for a fee of 0.5% of the gross proceeds of sale (but excluding those sale and purchase agreements which were effected by a third party sales agent) (the "Letter Agreement"). The aggregate amount of fees receivable by HLD Sub B as remuneration under the appointment were subject to a ceiling of HK$1,000,000 for the year ended 31 December 2017. Pursuant to the terms of the Letter Agreement, the appointment of HLD Sub B as sales manager expired in December 2017.

In December 2017, the Group entered into a second letter agreement with HLD Sub B and HLD Sub B continued to act as the sales manager of the Group in respect of the sale and purchase of the remaining residential units of the Hung Hom Property for a further term of three years commencing from 1 January 2018 to 31 December 2020 (the "Term of Appointment"). The aggregate amount of fees receivable by HLD Sub B as remuneration under the appointment shall be subject to a ceiling of HK$1,000,000 per annum during the Term of Appointment.

A total fee of HK$47,000 (2017: HK$Nil) was charged to the Group for the year ended 31 December 2018. At 31 December 2018, an amount of HK$47,000 (2017: HK$Nil) remained unpaid and was included in trade and other payables.

28 MATERIAL RELATED PARTY AND CONNECTED TRANSACTIONS (Continued)

(b) Other material related party and connected transactions (Continued)

(vii) In March 2014, the Group as landlord and an indirectly non-wholly owned subsidiary of HLD as tenant agreed to renew the tenancy agreement in respect of certain shops and spaces of MHP (the "Tenancy Renewal Agreement"). Pursuant to the Tenancy Renewal Agreement, the tenant agreed to take the lease for a term of three years commencing from 1 July 2014 at a monthly rental of HK$470,000 and other ancillary expenses and a turnover rent of 7% (if any) of annual gross turnover of the tenant's business conducted over HK$120,000,000 which shall be payable monthly in arrears. The Group also entered into (i) an External Wall Signage Licence Agreement for three external wall signages at MHP; and (ii) an Entrance Signage Licence Agreement for one signage at the entrance of MHP for a term of three years commencing from 1 July 2014. Total annual licence fees payable under the External Wall Signage Licence Agreement and the Entrance Signage Licence Agreement are HK$22,000 and HK$8,000 respectively. The Tenancy Renewal Agreement and two Licence Agreements were subject to annual caps of respective years. Under the Tenancy Renewal Agreement and two Licence Agreements, each of their terms expired in June 2017.

In June 2017, the indirectly non-wholly owned subsidiary of HLD as tenant and HLD Sub A (as agent of the Group) as landlord entered into a renewal offer letter A (the "Renewal Offer Letter A") in respect of the leasing of Shop Nos. G01, Portion of G31, G35-G50, Portion of G51, Portion of G52, G63-G74 and corridors and atrium on Ground Floor, MHP ("Previous Premises 1") and Bridge area on Level 1, MHP ("Premises 2") for a term of one year commencing from 1 July 2017 to 30 June 2018 at a monthly rental of HK$244,000 for Previous Premises 1 and HK$6,000 for Premises 2 together with other ancillary expenses and a turnover rent of 7% of the excess (if any) of such annual gross turnover of the tenant's business conducted at Previous Premises 1 and Premises 2 over HK$50,000,000, which shall be payable monthly in arrears. The term of the Renewal Offer Letter A expired in June 2018.

In June 2017, the indirectly non-wholly owned subsidiary of HLD as tenant and HLD Sub A (as agent of the Group) as landlord entered into a renewal offer letter B (the "Renewal Offer Letter B") in respect of the leasing of Shop Nos. 127-161 and corridors and toilets on Level 1, MHP ("Premises 3") for a term of three years commencing from 1 July 2017 to 30 June 2020 at a monthly rental of HK$238,000 for Premises 3 together with other ancillary expenses and a turnover rent of 7% of the excess (if any) of such annual gross turnover of the tenant's business conducted at Premises 3 over HK$70,000,000, which shall be payable monthly in arrears.

28 MATERIAL RELATED PARTY AND CONNECTED TRANSACTIONS (Continued)

(b) Other material related party and connected transactions (Continued)

(vii) (Continued)

In June 2018, the indirectly non-wholly owned subsidiary of HLD as tenant and HLD Sub A (as agent of the Group) as landlord entered into a 2018 renewal offer letter A (the "2018 Renewal Offer Letter A") in respect of the leasing of Shop Nos. G01, Portion of G31, G37-G50, Portion of G51, Portion of G52, G63-G74 and corridors and atrium on Ground Floor, MHP ("Premises 1") and Premises 2 for a term of two years commencing from 1 July 2018 to 30 June 2020 at a monthly rental of HK$243,000 for Premises 1 and HK$7,000 for Premises 2 together with other ancillary expenses and a turnover rent of 7% of the excess (if any) of such annual gross turnover of the tenant's business conducted at Premises 1 and Premises 2 over HK$50,000,000, which shall be payable monthly in arrears.

The aggregate amounts of rentals and other ancillary expenses receivable under the Renewal Offer Letter A and the Renewal Offer Letter B are subject to the annual ceilings for the period from 1 July 2017 to 31 December 2017 of HK$7,500,000. In December 2018, the aggregate amounts of rentals and other ancillary expenses receivable under the 2018 Renewal Offer Letter A and the Renewal Offer Letter B are subject to the revised annual ceilings for the year ended 31 December 2018 of HK$15,000,000 (inclusive of the relevant cap applicable to the Renewal Offer Letter A) and for the year ending 31 December 2019 and for the period from 1 January 2020 to 30 June 2020 of HK$15,000,000 and HK$7,500,000 respectively.

During the year, an amount of HK$13,279,000 (2017: HK$12,271,000), being aggregate rental and fees receivable under the aforementioned lease and licences agreements in March 2014, June 2017 and June 2018, was credited to the Group.

(viii) In October 2015, the Group appointed HLD Sub A as the project manager of the comprehensively planned development consisting of residential component together with ancillary supporting facilities at 208 Tung Chau Street, Sham Shui Po, Kowloon, Hong Kong (the "TCS Property" or the "Proposed TCS Development") for a term of three years commencing from 2 November 2015 in consideration for a fee equivalent to the aggregate of 1% of the construction costs of the Proposed TCS Development, subject to the annual ceilings for the years ended 31 December 2015, 31 December 2016, 31 December 2017 and 31 December 2018 of HK$1,500,000, HK$4,100,000, HK$1,600,000 and HK$1,500,000 respectively. A total fee of HK$756,000 (2017: HK$688,000) was charged to the Group during the year. At 31 December 2018, an amount of HK$1,444,000 (2017: HK$688,000) remained unpaid and was included in trade and other payables.

28 MATERIAL RELATED PARTY AND CONNECTED TRANSACTIONS (Continued)

(b) Other material related party and connected transactions (Continued)

(ix) In October 2015, the Group appointed HLD Sub C as the main contractor of the Proposed TCS Development for a fee of 5% on all works of the Proposed TCS Development. The aggregate of the cost of works carried out by the main contractor or any connected persons (as defined in the Listing Rules) of the Company together with the 5% fee subject to the annual ceilings for the years ended 31 December 2015, 31 December 2016, 31 December 2017 and 31 December 2018 of HK$1,260,000, HK$19,990,000, HK$16,740,000 and HK$970,000 respectively. In accordance with the contract entered into the Group, an amount of HK$16,057,000 (2017: HK$112,285,000), of which HK$970,000 (2017: HK$12,345,000) being cost of work carried out by the main contractor or the connected persons (as defined in the Listing Rules) of the Company and the 5% fee, was charged by the main contractor for the superstructure work of the development of the TCS Property during the year. At 31 December 2018, an amount of HK$10,913,000 (2017: HK$33,840,000) remained unpaid and was included in trade and other payables.

(x) In October 2015, the Group appointed HLD Sub B as the sales manager of the Proposed TCS Development for a term of three years commencing from the date of the first initial sale of any residential units of the TCS Property in consideration of a sales fee of 0.5% of the gross proceeds of sale (but excluding those sale and purchase agreements which were effected by third party sales agent(s)) subject to the annual ceilings for the years ended 31 December 2015, 31 December 2016, 31 December 2017 and 31 December 2018 of HK$700,000, HK$2,000,000, HK$600,000 and HK$200,000 respectively. No fee has been charged to the Group during the years ended 31 December 2018 and 2017. At 31 December 2018, no amount remained unpaid (2017: HK$Nil).

(xi) In October 2015, the Group entered into a letter agreement with HLD Sub B and appointed HLD Sub B as the agent of the Group to lease certain shops and spaces of Mira Place One (formerly known as Miramar Shopping Centre) (“Premises 4”) for the marketing services of the TCS Property for the period from 5 November 2015 to the earlier of 4 January 2017 and the date on which the last residential unit in the TCS Property is sold, subject to the respective ceilings of HK$2,000,000 for the period from 5 November 2015 to 31 December 2015 and HK$3,600,000 for the period from 1 January 2016 to 4 January 2017. The letter agreement expired in January 2017.

In January 2017, the Group entered into a second letter agreement with HLD Sub B and HLD Sub B continued to act as the agent of the Group to lease the Premises 4 for use as show flats and sales office for the sale of the residential units of the TCS Property for the period from 5 January 2017 to the earlier of 4 May 2017 and the date on which the last residential unit in the TCS Property is sold, subject to the ceiling of HK$1,700,000. The second letter agreement expired in May 2017.

A total fee of HK$Nil (2017: HK$988,000) was charged to the Group during the year. At 31 December 2018, an amount of HK$997,000 (2017: HK$997,000) remained unpaid and was included in trade and other payables.

28 MATERIAL RELATED PARTY AND CONNECTED TRANSACTIONS (Continued)

(b) Other material related party and connected transactions (Continued)

(xii) In May 2017, a loan facility agreement was entered into among, among others, a joint venture company (the "Joint Venture Company") (as borrower), held indirectly by the Company as to 50% and the joint venture partner as to 50%, the Company (as guarantor), related companies of the joint venture partner (as guarantor and obligor), and the financial institutions named therein (as lenders) in relation to a term loan facility in the aggregate principal amount of HK$3,000,000,000 for the purpose of financing and refinancing the demolition cost, construction cost and professional fees in relation to the development on Tuen Mun Town Lot No. 547 located at Castle Peak Road, Castle Peak Bay, Area 48, Tuen Mun, New Territories, Hong Kong and the selling and marketing expenses in relation thereto (the "Loan Facility"). The Loan Facility is secured by, among others, a corporate guarantee in respect of 50% of the Loan Facility and a funding undertaking for project cost overrun (with completion guarantee) given by the Group (on a several basis and pro rata to the Group's 50% equity interest in the Joint Venture Company), as well as a share charge in respect of the issued share capital of the Joint Venture Company and a deed of subordination and assignment in respect of all indebtedness currently owing and which may in future become owing by the Joint Venture Company to its shareholders.

(xiii) At 31 December 2018, HLD, a substantial shareholder (as defined in the Listing Rules) of the Company is interested in approximately 33.41% (2017: 33.41%) of the total number of issued shares of the Company.

Dr. Lee Shau Kee, being a director of the Company, is deemed to have been interested in the above transactions (except note 28(b)(xii)) as a deemed controlling shareholder of HLD.

To the extent the above transactions (except note 28(b)(xii)) constituted connected transactions (as defined in the Listing Rules), the Group had complied with the relevant requirements under Chapter 14A of the Listing Rules.

(c) Applicability of the Listing Rules relating to connected transactions

The related party transactions in respect of notes 28(b)(v), (vi), (vii), (viii), (ix), (x) and (xi) above constitute connected transactions and/or continuing connected transactions (as defined in Chapter 14A of the Listing Rules). The disclosures required by Chapter 14A of the Listing Rules are provided in the paragraph headed "Connected Transactions" in the Report of the Directors as set out in the Company's annual report for the year ended 31 December 2018.

29 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	Note	2018 HK$'000	2018 HK$'000	2017 HK$'000	2017 HK$'000
Non-current assets					
Interest in subsidiaries	*12*		**4,297,414**		4,133,885
Interest in associate			**2,988**		2,988
			4,300,402		4,136,873
Current assets					
Trade and other receivables		**31,782**		31,970	
Cash and bank balances		**995**		955	
		32,777		32,925	
Current liabilities					
Amounts due to subsidiaries		**1,730,722**		1,474,060	
Trade and other payables		**9,616**		9,538	
		1,740,338		1,483,598	
Net current liabilities			**(1,707,561)**		(1,450,673)
Total assets less current liabilities			**2,592,841**		2,686,200
Non-current liability					
Net employee retirement benefits liabilities			**4,003**		3,024
NET ASSETS			**2,588,838**		2,683,176
CAPITAL AND RESERVES	*23(a)*				
Share capital			**1,754,801**		1,754,801
Reserves			**834,037**		928,375
TOTAL EQUITY			**2,588,838**		2,683,176

Approved and authorised for issue by the board of directors on 14 March 2019.

Dr. Lam Ko Yin, Colin
Chairman

Li Ning
Director

30 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

After the end of the reporting period, the directors proposed a final dividend. Further details are disclosed in note 9.

31 COMPARATIVE FIGURES

The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods chosen, comparative information is restated for HKFRS 15. Further details of the changes in accounting policies are disclosed in note 1(c).

32 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2018

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2018 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
HKFRS 16, *Leases*	1 January 2019
HK(IFRIC) 23, *Uncertainty over income tax treatments*	1 January 2019
Annual Improvements to HKFRSs 2015–2017 Cycle	1 January 2019
Amendments to HKAS 28, *Long-term interest in associates and joint ventures*	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. While the assessment has been substantially completed for HKFRS 16, the actual impacts upon the initial adoption of the standards may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standards are initially applied in the Group's interim financial report for the six months ending 30 June 2019. The Group may also change its accounting policy elections, including the transition options, until the standards are initially applied in that financial report.

32 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2018 (Continued)

HKFRS 16, *Leases*

As disclosed in note 1(i), currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease.

Under HKFRS16, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. HKFRS 16 will primarily affect the Group's accounting as a lessee of leases for properties which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease. HKFRS 16 is effective for annual periods beginning on or after 1 January 2019.

The Group plans to elect to use the modified retrospective approach for the adoption of HKFRS 16 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019 and will not restate the comparative information. As disclosed in note 25, at 31 December 2018 the Group's future minimum lease payments under non-cancellable operating leases amount to HK$1,498,000. Upon the initial adoption of HKFRS 16, the opening balances of lease liabilities and the corresponding right-of-use assets will be adjusted to HK$1,130,000 and HK$1,082,000 respectively, after taking account the effects of discounting, as at 1 January 2019. Other than the recognition of lease liabilities and right-of-use assets, the Group expects that the transition adjustments to be made upon the initial adoption of HKFRS 16 will not be material.

However, the expected changes in accounting policies as described above could have a material impact on the Group's financial statement from 2019 onwards.

FIVE YEARS' FINANCIAL SUMMARY

	Year ended 31 December				
	2014	2015	2016	2017 (restated)	**2018**
	HK$ Million	*HK$ Million*	*HK$ Million*	*HK$ Million*	***HK$ Million***
Results					
Revenue					
— Continuing operations	3,390	974	502	448	**1,089**
— Discontinued operation	117	94	60	—	**—**
	3,507	1,068	562	448	**1,089**
Profit/(loss) attributable to shareholders					
— Continuing operations	1,040	203	245	311	**345**
— Discontinued operation	(9)	(10)	(8)	—	**—**
	1,031	193	237	311	**345**
Dividends	556	128	128	135	**135**
	HK Cents	*HK Cents*	*HK Cents*	*HK Cents*	***HK Cents***
Earnings per share	289.5	54.1	66.4	87.3	**96.7**
Dividend per share	156.0	36.0	36.0	38.0	**38.0**
	Times	*Times*	*Times*	*Times*	***Times***
Dividend cover	1.9	1.5	1.8	2.3	**2.5**

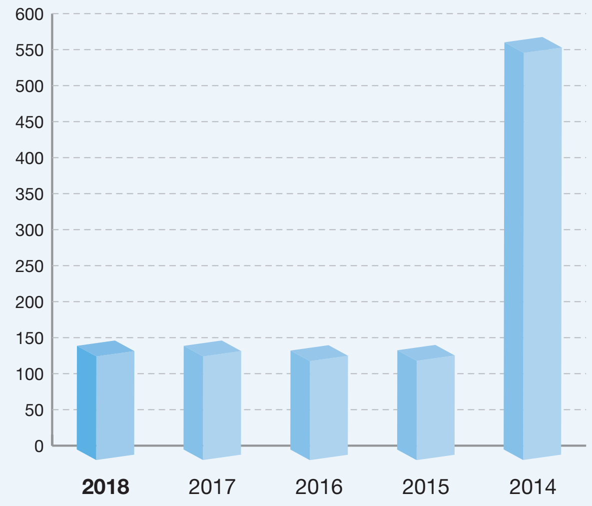
	At 31 December				
	2014	2015	2016 (restated)	2017 (restated)	**2018**
	HK$ Million	*HK$ Million*	*HK$ Million*	*HK$ Million*	***HK$ Million***
Assets and liabilities					
Investment properties, other property, plant and equipment and leasehold land	1,991	2,106	2,151	2,204	**2,243**
Interest in associates	14	11	10	9	**8**
Interest in a joint venture	—	—	1,355	1,364	**1,364**
Properties under development for sale	843	241	339	443	**1,034**
Other financial assets	523	918	682	176	**337**
Deferred tax assets	6	5	5	5	**4**
Other assets	3,701	2,893	1,965	2,591	**1,384**
Total assets	7,078	6,174	6,507	6,792	**6,374**
Total liabilities	1,255	522	726	825	**244**
Net assets employed	5,823	5,652	5,781	5,967	**6,130**
	HK$	*HK$*	*HK$*	*HK$*	***HK$***
Net assets per share	16.3	15.9	16.2	16.8	**17.2**

Notes to the five years' financial summary:

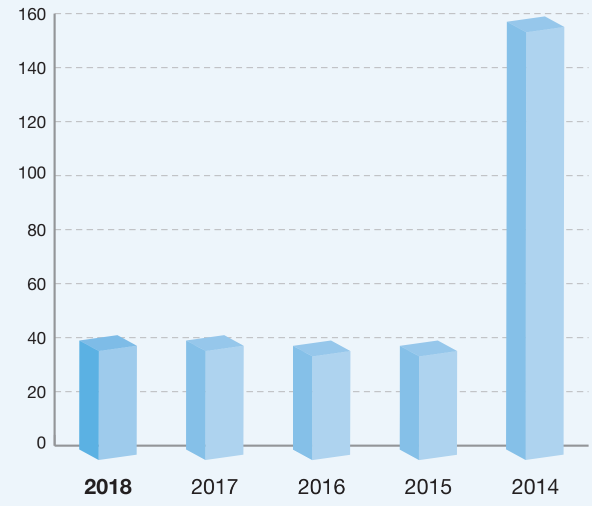
(i) As a result of the adoption of HKFRS 15, *Revenue from contracts with customers*, with effect from 1 January 2018, the Group has changed its accounting policies in respect of revenue recognition. In accordance with the transitional provisions of the standard, the changes in accounting policies were adopted retrospectively to contracts that existed as at 1 January 2017. Figures in 2014 and 2015 are stated in accordance with the policies applicable in those years.

(ii) The Group adopted HKFRS 9, *Financial instruments*, from 1 January 2018. As a result, the Group has changed its accounting policies in relation to financial instruments. As allowed by HKFRS 9, the Group has not restated information relating to prior years. Differences in the carrying amounts of the financial assets resulting from the adoption of HKFRS 9 were recognised in retained earnings and reserves at 1 January 2018. There was no difference in the carrying amounts of the financial liabilities. Prior to 1 January 2018, figures were stated in accordance with the policies applicable in those years.

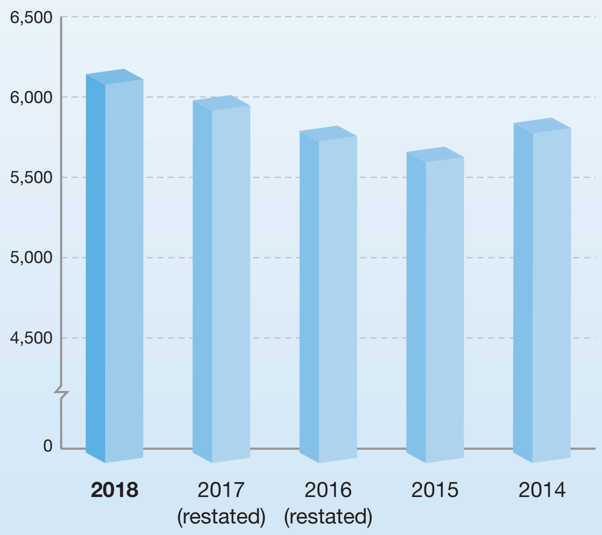
Dividends
HK$ Million



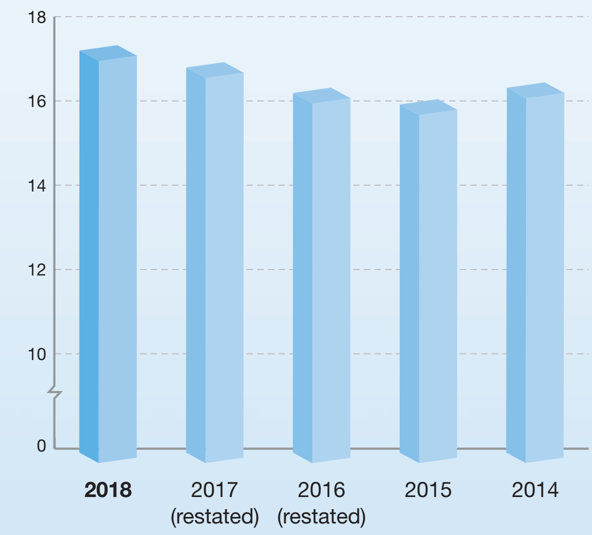
Dividends per share
HK Cents



Shareholders' funds
HK$ Million



Net assets per share
HK$



1. PROPERTY UNDER DEVELOPMENT

Location	Lot No.	Site area *(sq.m.)*	Gross floor area *(sq.m.)*	Group's interest *(%)*	Intended use
Castle Peak Road – Castle Peak Bay, Area 48, Tuen Mun, New Territories	Tuen Mun Town Lot No 547	15,400	61,600	50	Residential
Tung Chau Street/ Kweilin Street, Sham Shui Po, Kowloon	New Kowloon Inland Lot No. 6559	1,490	9,090	100	Residential

2. PROPERTIES HELD FOR INVESTMENT

Location	Lot No.	Gross floor area *(sq.m.)*	Lease expiry *(year)*	Existing use
Metro Harbour Plaza 8 Fuk Lee Street Tai Kok Tsui	KIL 11127 RP	23,549	2047	Commercial arcade
METRO6 121 Bulkeley Street	Hung Hom I.L. No. 555	932	2061	Commercial arcade
Green Code 1 Ma Sik Road Fanling	F.S.S.T.L. 177 (S.T.T. 1364(N))	8,610	2060	Commercial arcade
Shining Heights 83 Sycamore Street	KIL 11159	2,469	2054	Commercial arcade
The Spectacle 8 Cho Yuen Street Yau Tong	Yau Tong Inland Lot No. 38	2,300	2047	Commercial arcade
20 Tin Dai Yan Road Chung Uk Tsuen Hung Shui Kiu	Lot Nos. 3039A, 3039 RP & 3042 in DD 124 Hung Shui Kiu	1,912	2047	Godown

3. OTHER PROPERTIES

Location	Lot No.	Site area *(sq.m.)*	Lease expiry *(year)*	Group's interest *(%)*	Description
98 Tam Kon Shan Road Ngau Kok Wan North Tsing Yi	Tsing Yi Town Lot No. 102	19,740	2047	100	Shipyard and office
Mui Wo	DD 2 Lot Nos. 614 RP, 619 Sec. B, C and RP	4,233	2047	100	Agricultural land
Mui Wo	DD 2 Lot Nos. 431–487, 569 and 635–637	28,606	2047	50	Agricultural land
Mui Wo	DD 2 Lot Nos 498–499, and 588–591	849	2047	100	Agricultural land

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