Nanyang Holdings Limited

(Incorporated in Bermuda with limited liability) Stock Code: 212

2018 Annual Report

Contents

Corporate Information

Directors

\# Rudolf Bischof (Chairman)
Hung Ching Yung, JP (Managing Director)
Lincoln Chu Kuen Yung, JP, FHKIB (Deputy Managing Director)
\# Robert Tsai To Sze
* John Con-sing Yung
\# Wong Chi Kwong Patrick
Jennie Chen (Financial Controller)

\# *Independent Non-Executive Directors*
* *Non-Executive Director*

Company Secretary
Lee Sheung Yee

Principal Share Registrar and Transfer Agent
Estera Management (Bermuda) Limited
Canon's Court, 22 Victoria Street
Hamilton HM 12
Bermuda

Branch Share Registrar and Registration Office
Computershare Hong Kong Investor Services Limited
Rooms 1712–16, 17th Floor, Hopewell Centre
183 Queen's Road East
Hong Kong

Independent Auditors
PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong

Bankers
The Hongkong & Shanghai Banking Corporation Ltd
Shanghai Commercial Bank Ltd

Solicitors
Mayer Brown

Company Website
www.nanyangholdingslimited.com

	2018 HK$'000	2017 HK$'000	Variance
Revenue and other (losses)/income	121,965	204,357	(40%)
Profit attributable to equity holders of the Company	334,518	354,983	(6%)
Profit attributable to equity holders of the Company after deducting:			
– changes in fair value of investment properties and related tax effects	(272,963)	(170,585)	60%
– non-recurring income (Note)	–	(37,719)	(100%)
	61,555	146,679	(58%)

	2018 HK$	2017 HK$	
Earnings per share	9.92	10.11	(2%)
Earnings per share – after deducting the changes in fair value of investment properties and related tax effects and non-recurring income	1.83	4.18	(56%)
Final dividend per share	0.70	0.70	–
Special dividend per share	0.70	0.65	8%
Dividend per share	1.40	1.35	4%
Net asset value per share	137.71	121.30	14%

Note:

Non-recurring income in 2017 comprised share of profit of an associate as the associate was subsequently dissolved in 2018 and reversal of provision for indemnity.

	2018 HK$'000	2017 HK$'000	2016 HK$'000	2015 HK$'000	2014 HK$'000
Consolidated Income Statement					
Revenue and other (losses)/income	121,965	204,357	144,419	125,109	137,146
Operating profit	344,302	336,913	152,007	160,395	283,860
Finance income	1,231	201	133	2,358	–
Finance expense	(71)	(976)	(425)	(822)	(434)
Share of profits/(losses) of joint ventures and an associate	11,140	37,593	(7,463)	14,896	91,002
Profit before income tax	356,602	373,731	144,252	176,827	374,428
Income tax expense	(22,084)	(18,748)	(18,412)	(19,696)	(16,670)
Profit attributable to equity holders of the Company	334,518	354,983	125,840	157,131	357,758
Dividends paid	47,122	35,116	35,250	42,314	37,015
Consolidated Balance Sheet					
Property, plant and equipment	296	421	549	798	1,033
Investment properties	2,553,230	2,269,120	2,091,080	2,031,370	1,945,200
Investments in joint ventures	109,007	109,283	101,081	104,919	104,736
Available-for-sale financial assets	–	1,434,081	1,056,750	1,169,115	1,366,156
Financial assets at fair value through other comprehensive income	1,674,111	–	–	–	–
Non-current financial assets at fair value through profit or loss	4,300	–	–	–	–
Other non-current asset	9,739	15,407	–	–	–
Investment in an associate	–	–	51,772	75,261	75,412
Deferred income tax assets	–	–	–	442	593
Net current assets	422,485	448,226	265,156	223,197	202,585
Deferred income tax liabilities	(25,213)	(22,960)	(21,705)	(20,973)	(19,819)
Net assets	4,747,955	4,253,578	3,544,683	3,584,129	3,675,896
Share capital	3,448	3,507	3,523	3,526	3,526
Reserves	4,744,507	4,250,071	3,541,160	3,580,603	3,672,370
Total equity	4,747,955	4,253,578	3,544,683	3,584,129	3,675,896

Notice of Annual General Meeting

NOTICE IS HEREBY GIVEN that the Annual General Meeting of the Members of Nanyang Holdings Limited will be held at 21st Floor, St. George's Building, 2 Ice House Street, Central, Hong Kong on Thursday, 23 May 2019 at 12:00 noon for the following purposes:

1. To receive and consider the audited Financial Statements and the reports of the Directors and the Auditor for the year ended 31 December 2018;

2. To approve the payment of a final dividend and a special dividend;

3. To re-elect retiring Directors;

4. To re-appoint the Auditor and fix their remuneration.

As special business to consider and, if thought fit, pass with or without modification the following Resolutions:

As Ordinary Resolutions:

5. THAT:

   (a) subject to paragraph (b) below, the exercise by the Directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to purchase shares of the Company be generally and unconditionally approved;

   (b) the aggregate number of shares which may be purchased on The Stock Exchange of Hong Kong Limited or on any other stock exchange on which shares of the Company may be listed and recognised for this purpose by the Securities and Futures Commission of Hong Kong and The Stock Exchange of Hong Kong Limited for this purpose under the Hong Kong Code on Share Buy-backs pursuant to the approval in paragraph (a) above shall not exceed 10 per cent. of the aggregate number of issued shares of the Company at the date of passing this Resolution, and the said approval shall be limited accordingly;

   (c) for the purposes of this Resolution:

   "Relevant Period" means the period from the passing of this Resolution until whichever is the earlier of:

   (i) the conclusion of the next Annual General Meeting of the Company; and

   (ii) the revocation or variation of the authority given under this Resolution by ordinary resolution of the shareholders in general meeting.

6. THAT:

    (a) subject to paragraph (c) below, the exercise by the Directors of the Company during the Relevant Period (as hereinafter defined) of all the powers of the Company to allot, issue and deal with additional shares in the capital of the Company and to make or grant offers, agreements and options which might require the exercise of such powers be generally and unconditionally approved;

    (b) the approval in paragraph (a) above shall authorise the Directors of the Company during the Relevant Period to make or grant offers, agreements and options which might require the exercise of such powers after the end of the Relevant Period;

    (c) the aggregate number of shares allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Directors of the Company pursuant to the approval in paragraph (a) above, otherwise than pursuant to (i) a Rights Issue (as hereinafter defined); or (ii) any scrip dividend or similar arrangement providing for the allotment of shares in lieu of the whole or part of a dividend on shares of the Company in accordance with the Bye-laws of the Company, shall not exceed the aggregate of (aa) 10 per cent. of the aggregate number of issued shares of the Company at the date of passing this Resolution plus (bb) (if the Directors of the Company are so authorised by a separate ordinary resolution of the shareholders of the Company) the number of shares of the Company repurchased by the Company subsequent to the passing of this Resolution (up to a maximum equivalent to 10 per cent. of the aggregate number of issued shares of the Company at the date of passing the resolution set out as Resolution 5 above), and the said approval shall be limited accordingly; and

    (d) for the purposes of this Resolution:

        "Relevant Period" means the period from the passing of this Resolution until whichever is the earlier of:

        (i) the conclusion of the next Annual General Meeting of the Company; and

        (ii) the revocation or variation of the approval given by this Resolution by ordinary resolution of the shareholders in general meeting; and

        "Rights Issue" means an offer of shares open for a period fixed by the Directors of the Company to holders of shares of the Company or any class thereof on the register on a fixed record date in proportion to their then holdings of such shares or class thereof (subject to such exclusion or other arrangements as the Directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory outside Hong Kong).

7. THAT the Directors of the Company be authorised to exercise the powers of the Company referred to in paragraph (a) of the resolution set out as Resolution 6 in the notice of this meeting in respect of the share capital of the Company referred to in sub-paragraph (bb) of paragraph (c) of such resolution.

By Order of the Board

Lee Sheung Yee
Company Secretary

Hong Kong, 27 March 2019

Notes:

1. The register of members of the Company will be closed from 17 May 2019 to 23 May 2019, both days inclusive, during which period no transfer of shares will be registered. For the purpose of ascertaining the shareholders' eligibility to attend and vote at the Annual General Meeting of the Company to be held on 23 May 2019, all transfers of shares accompanied by the relevant share certificates must be lodged for registration with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, Rooms 1712–16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Thursday, 16 May 2019.

2. The register of members of the Company will be closed from 31 May 2019 to 4 June 2019, both days inclusive, during which period no transfer of shares will be registered. For the purpose of ascertaining the shareholders' entitlement for the proposed final and special dividends, all transfers of shares accompanied by the relevant share certificates must be lodged for registration with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, Rooms 1712–16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on Thursday, 30 May 2019.

3. A member entitled to attend, act and vote is entitled to appoint one or more proxies to attend, act and vote instead of him. A proxy need not be a member of the Company. To be valid, an instrument appointing a proxy together with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of that power or authority shall be deposited at the principal place of business of the Company, Room 1808, St. George's Building, 2 Ice House Street, Central, Hong Kong not less than 48 hours before the time appointed for the holding of the meeting or any adjourned meeting, and in default thereof the instrument of proxy shall not be treated as valid. No instrument appointing a proxy shall be valid after the expiration of 12 months from the date of its execution.

   Delivery of an instrument appointing a proxy shall not preclude a member from attending and voting in person at the meeting concerned, and in such event the instrument appointing a proxy shall be deemed to be revoked.

4. Corporate representatives shall before the meeting commences produce the relevant resolution of directors or other governing body or the power of attorney under which they are authorised to attend, act and vote at the meeting.

   If a member which is a corporation wishes to appoint a proxy to attend and vote at the meeting, Note 3 above shall be applicable.

5. In relation to the general mandate referred to in Resolution 6 above, the Directors have no specific proposal in mind but wish to be in a position to take advantage of any opportunities which may arise.

6. The Chairman will demand that each of the resolutions set out in the notice of this meeting be voted on by poll.

Rudolf Bischof

Chairman, Independent Non-Executive Director, Chairman of Nomination Committee, Member of Remuneration Committee and Member of Audit Committee

Mr. Rudolf Bischof, aged 77, was appointed an Independent Non-Executive Director of the Company in March 1998 and became Chairman in August 2003. He was educated in Switzerland and has been engaged in the field of asset management and private banking in Hong Kong since 1971, including several years with the former Swiss Bank Corporation. Prior to coming to Hong Kong, Mr. Bischof also worked for a leading British investment bank in London, Madrid and New York.

Hung Ching Yung, JP

Managing Director, Member of Remuneration Committee and Member of Nomination Committee

Mr. Hung Ching Yung, aged 96, has been the Managing Director of the Company for 72 years since it was founded in 1947. He studied in St. John's University and graduated from the University of Shanghai. He is now the Chairman of The Shanghai Commercial & Savings Bank, Ltd. in Taiwan, the shares of which had been listed on the Taiwan Stock Exchange in October 2018. He is also a Director of Shanghai Sung Nan Textile Co. Ltd., Shanghai Commercial Bank Ltd. in Hong Kong, Paofoong Insurance Company (Hong Kong) Ltd., and The Wing On Enterprises, Ltd. He was the Founder of the Hong Kong Cotton Spinners Prevocational School and has been an Advisor of the Tung Wah Group of Hospitals since 1956 until now. He is also a director of certain subsidiaries of the Company incorporated in Hong Kong, British Virgin Islands, Liberia and Panama. He is the father of Mr. Lincoln C. K. Yung and the grandfather of Mr. John Con-sing Yung.

Lincoln Chu Kuen Yung, JP, FHKIB

Deputy Managing Director, Member of Remuneration Committee and Member of Nomination Committee

Mr. Lincoln C. K. Yung, aged 73, has been a Director of the Company for 42 years. He is an economics graduate from the Cornell University and received an MBA in accounting and finance from the University of Chicago. Mr. Yung has extensive experience in the textile industry, banking and investment, and has served on various community and government committees. He is an Honorary Advisory Vice President and Fellow of The Hong Kong Institute of Bankers and appointed an Adjunct Professor of The Hong Kong Polytechnic University (School of Accounting and Finance). He is also an Independent Non-Executive Director of Tai Ping Carpets International Limited, a Director of The Shanghai Commercial & Savings Bank, Ltd. (whose shares had been listed on the Taiwan Stock Exchange in October 2018) and Non-Executive Vice-Chairman of Southern Textile Co. Ltd. In 2013, Mr. Yung became Chairman of Shanghai Sung Nan Textile Co. Ltd. Mr. Yung is currently the Honorary President of HK Wuxi Trade Association Limited and Executive Vice-chairman of Federation of HK Jiangsu Community Organisations Ltd. He is also a director of certain subsidiaries of the Company incorporated in Hong Kong, British Virgin Islands, Liberia and Panama. He is the son of Mr. Hung Ching Yung and the father of Mr. John Con-sing Yung.

Robert Tsai To Sze

Independent Non-Executive Director, Chairman of Audit Committee, Member of Remuneration Committee and Member of Nomination Committee

Mr. Robert Sze, aged 78, was appointed an Independent Non-Executive Director of the Company in August 2003. He is a Fellow of the Institute of Chartered Accountants in England and Wales and the Hong Kong Institute of Certified Public Accountants and was a partner in an international firm of accountants with which he had practised for over 20 years. He is an Independent Non-Executive Director of a number of Hong Kong listed companies, Dah Sing Banking Group Limited, Dah Sing Financial Holdings Limited, Hop Hing Group Holdings Limited and Sunwah Kingsway Capital Holdings Limited. Mr. Sze has also been an Independent Non-Executive Director of Min Xin Holdings Limited (resigned on 1 April 2018) and China Travel International Investment Hong Kong Limited (resigned on 24 October 2018) during the past three years.

John Con-sing Yung

Non-Executive Director

Mr. John Yung, aged 50, was appointed a Non-Executive Director of the Company in December 2012. He holds a bachelor degree in arts and a master degree in business administration from the University of Chicago. Mr. Yung is a director of certain subsidiaries of the Company incorporated in Hong Kong, British Virgin Islands and Liberia. He was appointed as Director of The Shanghai Commercial & Savings Bank, Ltd. ("SCSB") in Taiwan since 2003, the shares of which had been listed on the Taiwan Stock Exchange in October 2018. He is presently a senior Executive Vice President and the Chief Information Officer of SCSB, responsible for the bank's overseas expansion and relationship with other financial institutions. In May 2016, Mr. Yung was appointed as a Non-Executive Director of Shanghai Commercial Bank Ltd. in Hong Kong. In August 2018, Mr. Yung was appointed as a Non-Executive Director and Shareholder representative of AMK Microfinance Institution Plc. in Cambodia and was appointed as a Director of Paofoong Insurance Company (Hong Kong) Ltd. in Hong Kong in October 2018. He has over nine years of experience in information technology and telecommunication business in the Asia Pacific region. Mr. Yung is a son of Mr. Lincoln C. K. Yung and a grandson of Mr. Hung Ching Yung.

Wong Chi Kwong Patrick

Independent Non-Executive Director, Chairman of Remuneration Committee, Member of Audit Committee and Member of Nomination Committee

Mr. Patrick Wong, aged 57, was appointed an Independent Non-Executive Director of the Company in October 2016. He holds a bachelor degree in laws from University of London. In 1992, Mr. Wong was admitted as a solicitor in Hong Kong and was also admitted as a solicitor in England & Wales in 1994. He was a partner of Mayer Brown JSM (formerly Johnson Stokes & Master) from 1996 to 2015 with which he had practised for over 20 years. His personal practice focuses on corporate finance and Hong Kong listed company related work.

Mr. Wong is currently the Chairman of Lingnan Education Organization Limited and a Council member of Lingnan University. He is also the Deputy Chairman of Hong Kong Productivity Council, the Deputy Chairman of The Applied Research Council of the Government of the Hong Kong Special Administrative Region and the Chairman of Review Committee on Trust Fund for Severe Acute Respiratory Syndrome.

Jennie Chen

Director and Financial Controller

Ms. Jennie Chen, aged 63, was appointed a Director of the Company in September 2003. Ms. Chen holds the position of Financial Controller and has been with the Company for over 33 years. She graduated from the University of Toronto and has experience in accountancy, finance and investment, and the textile industry. Ms. Chen is a Director of Southern Textile Co. Ltd. and Shanghai Sung Nan Textile Co. Ltd. She is also a director of certain subsidiaries of the Company incorporated in Hong Kong, British Virgin Islands and Panama.

REPORT OF THE DIRECTORS

The Directors submit their report together with the audited financial statements for the year ended 31 December 2018.

Principal Activities and Segment Analysis of Operations

The principal activity of the Company is investment holding. The activities of its joint ventures and subsidiaries are set out in Notes 15 and 33 to the financial statements respectively.

An analysis of the Group's performance for the year by business and geographical segments is set out in Note 5 to the financial statements.

Results and Appropriations

The results of the Group for the year ended 31 December 2018 are set out in the consolidated income statement on page 38.

The Directors recommend the payment of a final dividend of HK$0.70 (2017: HK$0.70) per share and a special dividend of HK$0.70 (2017: HK$0.65) per share, representing a total dividend distribution of approximately HK$48.3 million (2017: HK$47.3 million). Subject to the approval by the shareholders of the Company at the forthcoming Annual General Meeting, the final and special dividends will be paid on around 14 June 2019.

Closure of Register of Members

For the purpose of ascertaining the shareholders' eligibility to attend and vote at the Annual General Meeting, the register of members of the Company will be closed from 17 May 2019 to 23 May 2019, both days inclusive. In order to qualify for attending and voting at the Annual General Meeting, shareholders should ensure that all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited at Rooms 1712–16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Thursday, 16 May 2019. The Annual General Meeting of the Company will be held on Thursday, 23 May 2019.

For the purpose of ascertaining shareholders' entitlement for the proposed final and special dividends, the register of members of the Company will be closed from 31 May 2019 to 4 June 2019, both days inclusive. To qualify for the proposed final and special dividends, shareholders should ensure that all properly completed transfer forms accompanied by the relevant share certificates must be lodged for registration with the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited at Rooms 1712–16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Thursday, 30 May 2019.

Reserves

Details of movements in the reserves of the Company and the Group during the year are set out in Note 23 to the financial statements and in the consolidated statement of changes in equity on page 42 respectively.

Distributable Reserves

Distributable reserves of the Company as at 31 December 2018, calculated in accordance with the Companies Act 1981 of Bermuda (as amended), amounted to HK$477,202,000 (2017: HK$472,517,000).

Principal Properties

Details of the principal properties of the Group are set out on page 108.

Share Capital

Details of the movements in share capital of the Company during the year are set out in Note 22 to the financial statements.

Five Year Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 4.

Directors

The names of the Directors of the Company who held office during the year and up to the date of this report are set out on page 2. The biographical details of the Directors are set out on pages 9 to 11.

Mr. Hung Ching Yung retires voluntarily in accordance with the Company's Corporate Governance Code and, being eligible, offers himself for re-election.

Mr. John Con-sing Yung retires by rotation in accordance with Bye-law 109(A) of the Bye-laws of the Company and, being eligible, offers himself for re-election.

None of the Directors who are proposed for re-election at the forthcoming Annual General Meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

Directors' and Chief Executives' Interests and Short Positions in Shares, Underlying Shares and Debentures

As at 31 December 2018, the interests and short positions of the Directors and chief executive in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register required to be kept under Section 352 of the SFO and so far as is known to the Directors, or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited were as follows:

	Shares of HK$0.10 each of the Company				
Name	Personal interests	Family interests	Corporate interests	Total	% of issued share capital
Hung Ching Yung	10,701,944	30,000	5,500,000 (Note)	16,231,944	47.08%
Lincoln C. K. Yung	2,240,000	10,000	–	2,250,000	6.52%
Rudolf Bischof	150,000	–	–	150,000	0.43%
John Con-sing Yung	33,000	37,000	–	70,000	0.20%

Note: As stated below, Mr. Hung Ching Yung is taken to be interested in the same 5,500,000 shares owned by a substantial shareholder, Tankard Shipping Co. Inc., pursuant to the SFO.

During the year, the Company has not granted to any Directors, chief executive or their respective spouses and children under 18 years of age any rights to subscribe for shares of the Company.

No transactions, arrangements and contracts of significance in relation to the business of the Group to which the Company or its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

At no time during the year was the Company or its subsidiaries a party to any arrangements to enable the Directors or chief executive of the Company (including their spouses and children under 18 years of age) to hold any interests or short positions in the shares or underlying shares in, or debentures of, the Company or other associated corporations.

Interests and Short Positions of Substantial Shareholders in Shares and Underlying Shares

As at 31 December 2018, the Register of Substantial Shareholders' Interests and Short Positions maintained under Section 336 of the SFO shows that the following party, other than the Directors as disclosed above, was interested in 5 per cent or more of the issued share capital of the Company:

	Number of Shares	% of issued share capital
Tankard Shipping Co. Inc.	5,500,000 (Note)	15.95%

Note: Mr. Hung Ching Yung is taken to be interested in the same 5,500,000 shares owned by Tankard Shipping Co. Inc. pursuant to the SFO.

Directors' Interests in Competing Business

As at 31 December 2018, none of the Directors is interested in any business, apart from the Group's businesses, which competes or is likely to complete, either directly or indirectly, with the businesses of the Group.

Purchase, Sale or Redemption of Shares

During the year, the Company repurchased an aggregate of 589,500 of its shares on The Stock Exchange of Hong Kong Limited, all of which have been cancelled. The Directors believe that share buybacks will be beneficial to the shareholders as the shares are traded at a discount to the net asset value per share. Details of the shares repurchased are as follows:

Month of repurchase	Number of shares purchased	Price per share Highest HK$	Price per share Lowest HK$	Aggregate cost HK$
2018				
January	28,000	53.00	50.55	1,456,900
February	112,500	57.50	50.50	6,033,575
April	18,000	57.00	57.00	1,026,000
May	9,000	57.00	56.90	512,775
August	3,000	55.50	55.50	166,500
September	58,000	55.50	55.00	3,215,250
October	128,500	55.00	52.00	6,895,500
December	232,500	52.00	52.00	12,090,000
	589,500			31,396,500

Except as disclosed above, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any shares of the Company during the year.

Dividend Policy

The Company has adopted a dividend policy ("Dividend Policy"), pursuant to which the Company may distribute dividends to its shareholders by ways of cash or by other means that the Company considers appropriate. The recommendation of the payment of any dividend is subject to the absolute discretion of the Board, and any declaration of final dividend will be subject to the approval of the shareholders.

The Board will review the dividend policy from time to time in light of the following factors in determining whether dividends are to be declared and paid:

- Results of operations of the Company;
- Cash flows of the Company;
- Financial condition of the Company;
- Shareholders' interests of the Company;
- General business conditions and strategies of the Company;
- Capital requirements of the Company;
- The payment by subsidiaries of the Company of cash dividends to the Company; and
- Other factors the Board may deem relevant.

Pre-emptive Rights

No pre-emptive rights exist under Bermuda law in relation to the issue of new shares by the Company.

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

Permitted Indemnity Provisions

At no time during the financial year and up to the date of this Directors' Report, there was or is, any permitted indemnity provision being in force for the benefit of any of the Directors of the Company (whether made by the Company or otherwise) or an associated company (if made by the Company).

Major Suppliers and Customers
The percentages of purchases and sales for the year attributable to the Group's major suppliers and customers are as follows:

Purchases	
– the largest supplier	68%
– five largest suppliers combined	89%

The five largest customers for the year are tenants of the Group's investment properties. Income from the largest and five largest customers combined constitutes 14% and 27% (2017: 14% and 27%) of the Group's total income from investment properties for the year.

None of the Directors, their associates or any shareholders (which to the knowledge of the Directors own more than 5% of the Company's share capital) had an interest in the major suppliers or customers noted above.

Related Party Transactions
Details of related party transactions are set out in Note 31 to the financial statements. None of the transactions constitute a connected transaction as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

Sufficiency of Public Float
Based on the information that is publicly available and within the knowledge of the Directors, it is confirmed that there is sufficient public float of more than 25% (2017: 25%) of the Company's issued shares at 27 March 2019.

Business Review
Business review and prospects analysis is set out on pages 25 to 27.

Auditors
The financial statements have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

On behalf of the Board

Rudolf Bischof
Chairman

Hong Kong, 27 March 2019

The Board of Directors (the "Board") of the Company is committed to promoting good corporate governance to safeguard the interests of the shareholders and to enhance the Group's performance. Throughout the year, the Company was in compliance with the code provisions of the Corporate Governance Code and Corporate Governance Report as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 of the Listing Rules (the "Model Code") which applies to all Directors and all relevant employees who are informed that they are subject to its provisions. Having made specific enquiry of all Directors, the Company's Directors confirmed that they have complied with the required standard as set out in the Model Code throughout the year ended 31 December 2018.

Board of Directors

The Board is responsible for leadership and control of the Group and is collectively responsible for promoting the success of the Company and its business by directing and supervising its affairs. The positions of Chairman and Managing Director are held by Mr. Rudolf Bischof and Mr. Hung Ching Yung respectively. The Chairman provides overall leadership and is responsible for effective functioning and leadership of the Board. The Managing Director focuses on business development and formulating strategic plans. The day-to-day management however has been delegated to the Executive Directors.

The Board comprises seven Directors: three Executive Directors, three Independent Non-Executive Directors and one Non-Executive Director. One of the Independent Non-Executive Directors possesses the appropriate professional accounting qualifications or related financial management expertise as required under the Listing Rules.

Each of the Independent Non-Executive Directors has made an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules.

The Board meets regularly to review financial statements, material investments in new projects, dividend policy, major financings, treasury policies and changes in accounting policies. All Directors have access to board papers and related materials which are provided in a timely manner. The Company Secretary keeps the minutes of Board meetings.

The Company has insurance coverage for its Directors and officers.

Board of Directors *(cont'd)*

The Board held four board meetings and an annual general meeting in 2018. Attendance of individual Directors is listed below:

		Board Meetings	Annual General Meeting
Executive Directors			
Mr. Hung Ching Yung, JP	Managing Director	4/4	1/1
Mr. Lincoln C. K. Yung, JP, FHKIB	Deputy Managing Director	4/4	1/1
Ms. Jennie Chen	Financial Controller	4/4	1/1
Independent Non-Executive Directors			
Mr. Rudolf Bischof	Chairman of the Board	3/4	1/1
Mr. Robert Tsai To Sze	Director	4/4	1/1
Mr. Wong Chi Kwong Patrick	Director	4/4	1/1
Non-Executive Director			
Mr. John Con-sing Yung	Director	4/4	1/1

Mr. Hung Ching Yung is the father of Mr. Lincoln C. K. Yung and Mr. John Con-sing Yung is a son of Mr. Lincoln C. K. Yung.

The Independent Non-Executive Directors and Non-Executive Director are appointed for a specific term and are subject to retirement by rotation.

Directors' Continuous Professional Development

All the Directors of the Company participate in continuous professional development to ensure they are informed and aware of the amendments and updates of the Listing Rules, Hong Kong Companies Ordinance and Corporate Governance Code.

Directors are provided with written materials from time to time, they attend seminars and the Company Secretary also arranges suitable in-house training on the latest development of rules and regulations for assisting the Directors in discharging their duties.

According to the records maintained by the Company, the Directors received the following training on continuous professional development during the year.

		Material	In-house training/ seminars
Executive Directors			
Mr. Hung Ching Yung, JP	Managing Director	√	√
Mr. Lincoln C. K. Yung, JP, FHKIB	Deputy Managing Director	√	√
Ms. Jennie Chen	Financial Controller	√	√
Independent Non-Executive Directors			
Mr. Rudolf Bischof	Chairman of the Board	√	√
Mr. Robert Tsai To Sze	Director	√	√
Mr. Wong Chi Kwong Patrick	Director	√	√
Non-Executive Director			
Mr. John Con-sing Yung	Director	√	√

Remuneration Committee

The Remuneration Committee was established by the Board on 25 May 2005. The written terms of which were revised on 7 December 2005, 7 May 2012 and 18 May 2012 and further revised on 2 September 2015. The Committee consists of the three Independent Non-Executive Directors, the Managing Director and the Deputy Managing Director.

Remuneration Committee *(cont'd)*
The Committee met once in 2018. Attendance of individual members is listed below:

	Attendance
Mr. Wong Chi Kwong Patrick – Chairman of the Remuneration Committee	1/1
Mr. Rudolf Bischof	1/1
Mr. Hung Ching Yung, JP	1/1
Mr. Lincoln C. K. Yung, JP, FHKIB	1/1
Mr. Robert Tsai To Sze	1/1

The principal duty of the Committee is to review and make recommendations to the Board on the Group's policy and structure for all remuneration of Directors and senior management. In doing this, professional advice may be sought if considered necessary. No Director or any of their associates is involved in deciding their own remuneration.

Auditor's Remuneration
For the year ended 31 December 2018, fees paid/payable to the auditors of the Group for audit and non-audit services amounted to HK$1,675,000 and HK$1,137,000 respectively. The non-audit services mainly include tax compliance, ESG reporting advisory and company secretarial services.

Nomination Committee
The Nomination Committee was established by the Board on 21 March 2012. The written terms of which were revised on 2 September 2015. The Committee consists of the three Independent Non-Executive Directors, the Managing Director and the Deputy Managing Director.

The Committee met once in 2018. Attendance of individual members is listed below:

	Attendance
Mr. Rudolf Bischof – Chairman of the Nomination Committee	1/1
Mr. Hung Ching Yung, JP	1/1
Mr. Lincoln C. K. Yung, JP, FHKIB	1/1
Mr. Robert Tsai To Sze	1/1
Mr. Wong Chi Kwong Patrick	1/1

The principal duty of the Committee is to review the structure, size and composition of the Board annually, to make recommendations regarding any proposed changes to complement the corporate strategy and to identify individuals suitably qualified to become Board members. The Committee also assesses the independence of Independent Non-Executive Directors and makes recommendations to the Board on the appointment or reappointment of Directors in particular the Chairman and the Chief Executive. In doing this, professional advice may be sought if considered necessary. The Board has adopted a nomination policy on 5 December 2018.

Board Diversity Policy

The Company believes that board diversity is an essential element in maintaining competitive advantage and sustainable development of the Company. The diversity also enables the Company to attract, retain and motivate employees from the widest possible pool of available talent.

The Company recognizes and embraces the benefits of diversity at Board level and has commitment to diversity at all levels through consideration of a number of factors, including but not limited to gender, age, cultural and educational background and professional experience.

The Board adopted a board diversity policy on 7 November 2013 and further revised on 5 December 2018. The Nomination Committee will review this Policy from time to time and monitor its implementation.

Audit Committee

The Audit Committee was established by the Board on 25 September 1998. The Committee consists of the three Independent Non-Executive Directors, Mr. Robert Tsai To Sze, FCA, FCPA, Mr. Rudolf Bischof and Mr. Wong Chi Kwong Patrick.

The Committee met twice in 2018. Attendance of individual members is listed below:

	Attendance
Mr. Robert Tsai To Sze, FCA, FCPA – Chairman of the Audit Committee	2/2
Mr. Rudolf Bischof	2/2
Mr. Wong Chi Kwong Patrick	2/2

By reference to "A Guide for The Formation of An Audit Committee" published by the Hong Kong Institute of Certified Public Accountants and the code provision C3.3 (the "Code Provision") of the Corporate Governance Code, Appendix 14 of the Listing Rules, written terms of reference (the "Terms") which describe the authority and duties of the Audit Committee were prepared and adopted by the Board of the Company on 30 June 2005. The amendments to the Code Provision which became effective on 1 January 2009 were adopted and incorporated in the Terms by the Board of the Company on 15 April 2009 and revised on 18 May 2012 and 2 September 2015 and further revised on 2 December 2015. The principal duties of the Audit Committee include the review and supervision of the Group's financial reporting system, risk management and internal control systems.

During 2018, the Audit Committee met to review the 2017 annual report and accounts and the 2018 interim report and accounts and held discussions with the external auditor regarding financial reporting, compliance, scope of audit, policies for maintaining independence, thereafter reporting to the Board.

Risk Management and Internal Control

The Board acknowledges its responsibility to oversee and to ensure that sound and effective risk management and internal control systems are maintained on an ongoing basis so as to safeguard the Group's assets and the interests of shareholders. The Board is responsible for reviewing the risk management and the internal control policies and has delegated the day-to-day management of internal control and operational risks to the Executive Directors.

The Directors are satisfied with the effectiveness of the Group's internal controls and consider that the key areas of the Group's system of internal controls are reasonably implemented. The internal controls should provide reasonable but not absolute assurance against material misstatement or loss, safeguard the Group's assets, maintain appropriate accounting records and financial reporting and ensure effective compliance with the Listing Rules and all other applicable laws and regulations.

The Group does not have an in-house internal audit function. The Directors have reviewed the need for an internal audit function and are of the view that in light of the size, nature and business of the Group, it would be more cost effective to appoint external independent professionals to perform internal audit functions for the Group. During the year, independent external professionals were hired to perform internal audit functions and a high-level risk assessment of the Group, which entails identifying, analysing and assessing key risks faced by the Group. By reference to a globally recognised internal controls framework, the high-level risk assessment covered all key controls including financial, compliance and operational controls and risk management systems. They concluded that there were no material control design gaps and no material or significant issues with the operating effectiveness of the risk management and control environment.

To ensure the dissemination of inside information of the Company to the public and its shareholders in an equal and timely manner in accordance with the Listing Rules, applicable laws and regulatory requirement, a Policy on Disclosure of Inside Information has been established to set out the guidelines, procedures and internal controls for the handling and dissemination of inside information.

The Company has also established a whistleblowing policy under which employees who have concerns about any suspected misconduct or malpractice can raise their concern in confidence without fear of reprisal or victimisation.

Directors' Responsibility Statement

The Directors acknowledge their responsibility for preparing the financial statements of the Group in accordance with statutory requirements and applicable accounting standards. The Group's annual results and interim results are announced in a timely manner.

The independent auditor's report states the auditor's reporting responsibilities.

Company Secretary

The Company Secretary, not being a full time employee of the Group, ensures that board procedures are followed and is responsible for advising the Board on governance matters and facilitating the induction and professional development of Directors. The primary contact at the Company with whom the Company Secretary has been contacting in respect of company secretarial matters is Ms. Jennie Chen, an Executive Director who is also the Financial Controller, or her delegate.

During the year ended 31 December 2018, the Company Secretary has complied with Rule 3.29 of the Listing Rules and taken no less than 15 hours of relevant professional training.

Shareholders' Rights

The Company established a shareholder communication policy in order to provide shareholders with information about the Company and to enable them to exercise their rights in an informed manner.

The Company has also established procedures on how Shareholders can convene a special general meeting; procedures for putting forward proposals at a general meeting by a Shareholder and procedures for Shareholders to propose a person for election as a Director. Details of these procedures and policy are available under the Corporate Governance section of the Company's website at http://www.nanyangholdingslimited.com.

Constitutional Documents

During the year ended 31 December 2018, no amendment was made to the Company's constitutional documents.

On behalf of the Board

Rudolf Bischof
Chairman

Hong Kong, 27 March 2019

The Board of Directors of Nanyang Holdings Limited ("the Company") announces that for the year ended 31 December 2018 the Group reported a profit after taxation of HK$334.5 million (2017: profit of HK$355 million). The current year's profit comprises mainly the dividend from The Shanghai Commercial & Savings Bank, Ltd., in respect of its 2017 earnings, of approximately HK$59.5 million (after netting 21% withholding tax); as well as the change in fair value of investment properties (including those owned by joint ventures) which resulted in a net gain totalling HK$273 million (2017: HK$170.6 million). Excluding the net effect of revaluing the investment properties at fair value, 2018 would have shown a profit after taxation of HK$61.6 million (2017: profit of HK$146.7 million, excluding the net effect of revaluing the investment properties at fair value and non-recurring items). Comparing with 2017, the current year's profit (after deducting fair value change of investment properties and non-recurring items) declined by 58% mainly due to the absence of share of profit from an associate, which was dissolved in early 2018, and reversal of provision for indemnity in 2017 totalling approximately HK$37.7 million, as well as loss from the investment portfolios in 2018 of approximately HK$41.8 million. Total earnings per share were HK$9.92 (2017: HK$10.11). However, if the net effect of revaluing the investment properties at fair value had been excluded, earnings per share would have been HK$1.83 (2017: HK$4.18, excluding the net effect of revaluing the investment properties at fair value and non-recurring items). The Group's net asset value per share increased from HK$121.30 (at 31/12/2017) to HK$137.71 (at 31/12/2018). During the year, we repurchased a total of 589,500 shares of the Company for a total consideration of approximately HK$31.4 million. These shares were subsequently cancelled.

The Directors recommend the payment of a final dividend of HK$0.70 per share and a special dividend of HK$0.70 per share, representing a total dividend distribution of approximately HK$48.3 million (2017: final dividend of HK$0.70 per share and a special dividend of HK$0.65 per share, representing a total dividend distribution of approximately HK$47.3 million).

Business Review and Prospects

Real Estate

Hong Kong

Leasing activities at Nanyang Plaza, the industrial/office building which the Group holds in Kwun Tong, continued to be satisfactory. Of the 290,000 sq.ft. of industrial/office space, presently 98.4% is leased. Valuation of the building continued to rise in the current low interest rate environment.

Shanghai

The Group's 65% investment in Shanghai Sung Nan Textile Co. Ltd., reported steady results. It has a total leasable area of 28,142 sq.m. and is fully leased to third parties. Business of the anchor tenant, a Taiwan listed wedding banquet company who leased approximately 21,202 sq.m. or 75.3% of the total space, continued to be stable. Upon expiration of the term of the existing joint venture, in less than 4 years, it will dissolve. As the land is zoned for greenery and education, we are in discussion with our Chinese partner for investment in a new joint venture which complies with the zoning requirement.

Business Review and Prospects *(cont'd)*

Real Estate *(cont'd)*

Shenzhen

Earnings at the joint venture, Southern Textile Company Limited, of which the Group owns 45%, continued to be favourable. The total leasable floor area of approximately 18,400 sq.m. is presently fully leased to third parties.

Financial Investments

In the latter half of 2018, the external environment became very challenging and world equity markets declined. For the year ended 31 December 2018, financial assets at fair value through profit or loss, classified as current assets, totalled HK$294.6 million which represented approximately 6.1% of the total assets of the Group. This comprises over 400 individual holdings. The Group recorded net realised and unrealised fair value losses of HK$41.8 million and investment income of HK$4.9 million. The investment portfolios, including cash held in the portfolios, decreased by 10.16% year on year. As at 31 December 2018, equities comprised approximately 65.4% (of which U.S. 40.3%; European 18.2%; Japanese 7.8%; Asia ex-Japan 22.5% and Emerging Markets 11.2%), bonds 16.4% (of which U.S. 69.5%; European 9.8%; Emerging Markets 18.3% and others 2.4%), commodities 1.1% and cash 17.1%.

Since the beginning of 2019, markets rebounded and have continued to rise. The prospect of no further rise in U.S. interest rates carried positive implications. However, the uncertainty of trade negotiations between the U.S. and China and the UK's exit from the European Union created volatility in the markets and dampened investors sentiment. During this period, we increased global equities and emerging market bonds cautiously. As at 22 March 2019, the latest practicable date, the portfolios increased year-to-date by approximately 7.9% and the value, including cash held in the portfolios, stood at approximately US$49.5 million or HK$388.6 million.

Going forward, we expect growth in Asia and China to slow due to domestic and external pressures. The final outcome of U.S. and China trade negotiations will have an impact on the global economy. Despite the turbulent environment, we remain cautiously optimistic and will look for new investment opportunities.

The Group's investment in a licensed bank in Taiwan, The Shanghai Commercial & Savings Bank, Ltd. ("SCSB"), represents approximately 4% of the total issued share capital of SCSB. It has been reclassified under non-current assets as financial assets at fair value through other comprehensive income and there is no intention to dispose the investment within 12 months of this report date. SCSB continued to perform well. In the second half of 2018, SCSB completed the deal to acquire 80.1% of Cambodia's AMK Microfinance Institution PLC, which is one of the largest deposit taking financial institution in the country. The Group received a net cash dividend of approximately HK$59.5 million for SCSB's 2017 earnings. On 19 October 2018, SCSB shares were successfully listed on the Taiwan Stock Exchange at NT$32.28 per share. Then, on 21 December 2018, SCSB became one of the Taiwan 50 Index constituent shares and, subsequently, in early March 2019, it was included as a constituent stock in the MSCI Taiwan Index (EWT). SCSB's share price increased approximately 19.9% during 2018, (from NT$33.52 per share to NT$40.2 per share), and the change in fair value of approximately HK$241 million was recorded in the other comprehensive income.

Business Review and Prospects *(cont'd)*

Financial Investments *(cont'd)*

Towards the end of the 2018, on 3 December, SCSB received the 16th Global Views: Five-Star Service Award in Taiwan, for its professional service to its bank clients. Presently SCSB has 69 branches in Taiwan, one each in Hong Kong, Vietnam and Singapore. They also have three representative offices, in Jakarta, Indonesia, Bangkok, Thailand and Phnom Penh, Cambodia. SCSB also holds a 57.6% interest in Shanghai Commercial Bank Limited ("SCB") in Hong Kong. SCB has 44 branches in Hong Kong, three in China and four branches overseas. The reviewed net profit attributable to owners of SCSB for the nine months ended 30 September 2018 was approximately NT$10,218.0 million (2017 same period: unreviewed net profit of approximately NT$9,329.9 million), representing an increase of 9.5%. Total reviewed equity attributable to owners of SCSB at 30 September 2018 was approximately NT$127,472.9 million (31/12/2017: approximately NT$122,409.8 million audited), an increase of 4.1%. (These figures were extracted from SCSB's website at http://www.scsb.com.tw.) The Board continues to view this as a sound and long term investment.

Financial Position

The Group's investment properties with an aggregate value of HK$2,387 million (31/12/2017: HK$2,107 million) have been mortgaged to a bank to secure general banking facilities. As at 31 December 2018, no bank facilities (31/12/2017: Nil) were utilized. At the end of the year, the Group had net current assets of HK$422.5 million (31/12/2017: HK$448.2 million). The Group borrowed Euro 1.0 million (approximately HK$9 million as at 31 December 2018) collateralized by a portion of the investment portfolio, to hedge its Euro exposure.

Employees

The Group employed 13 employees as at 31 December 2018. Remuneration is determined by reference to the qualifications and experience of the staff concerned. Salaries and discretionary bonuses are reviewed annually. The Group also provides other benefits including medical cover and provident fund.

On behalf of the Board of Directors, I would like to take this opportunity to thank all the staff for their contribution to the Group.

Rudolf Bischof
Chairman

Hong Kong, 27 March 2019

About this Report

The Board recognises that it has an overall responsibility for the Environmental, Social and Governance ("ESG") strategy and reporting of the Group. The scope of this report covers the major operations of the Group in property investment and investment holding and trading. It provides an overview of our key ESG performance in environmental protection, employment and labour practices, operating practices and community investment for the year ended 31 December 2018. It was prepared in accordance with the ESG Reporting Guide under Appendix 27 of the Main Board Listing Rules issued by the Stock Exchange of Hong Kong Limited.

We engaged our stakeholders on an ongoing basis to collect their views and expectations on our ESG performance and reporting.

Environmental Protection

The Group is committed to operating its business sustainably. We put emphasis on environmental conservation at our investment properties by enabling green initiatives to happen of which our building manager plays a key part in it. For example, as the major owner at Nanyang Plaza, we know that the building manager had energy-efficient lamps installed at carparks and common areas to enhance energy efficiency and reduce greenhouse gas (GHG) emissions. The building manager also invested in timer controls to automatically turn off the lighting at unused areas and reduce passenger lifts available for service after 7pm every day. Additionally, the building manager encourages smart water use by installing automatic sensor taps at washrooms and encourage our tenants to conserve water. Responsible waste management practices have been adopted at Nanyang Plaza to encourage reduction, reuse and recycling.

During 2018, two new replacement units of the central chiller plant system which generates chilled water for the central air conditioning system were installed at Nanyang Plaza. These new units require less electricity to operate and reduce GHG emissions. Three more new units will be replaced during 2019.

The Group continues to implement responsible office practices to raise staff awareness on environmental protection. For instance, employees are reminded to switch off idle electrical appliances, reuse envelopes and adopt double-sided printing.

Employment and Labour Practices

Employment

The Group is committed to nurturing a happy and motivated workforce to support business needs. Remuneration is determined by reference to the qualifications and experience of the staff. In addition to salaries, we provide a range of benefits including discretionary bonuses, medical cover and provident funds.

We support the wellbeing of our staff by encouraging a balance between work and life. We are committed to facilitating working arrangements accommodating employees' work, personal and family commitments. We have arranged annual lunch to foster employees' sense of belonging. We have a zero-tolerance against harassment and discrimination of any form.

Health and Safety

Protecting health and safety of our employees is our key priority. Maintenance and regular inspection are conducted in line with the regulations to ensure proper functioning of fire extinguishers in the event of an emergency.

The Group has also participated in courses that imparted valuable knowledge to employees on occupational health and safety as well as basic first aid care within the workplace.

Development and Training

The Group believes that talent development is critical in maintaining the business competitiveness. We offer a wide range of internal and external training courses to management for keeping up market knowledge.

Labour Standards

Whilst the industry we are in is typically considered to have a relatively lower risk, we adhere to internationally-accepted labour standards and strictly prohibit the use of child and forced labour. We expect our business partners to observe and comply with the same standard of labour practices.

Operating Practices

Supply Chain Management

The Group interacts with a number of suppliers and service providers. Adherence to social standards by suppliers and service providers forms an important part of our standard for sustainable procurement. We strive to minimise the risks associated with our supply chain, including those associated with environmental, social and governance practices, by working closely with our suppliers. We favour the procurement of environmentally and socially sustainable goods.

Product Responsibility

The Group primarily serves in property investment as well as investment holding and trading. We have engaged an internationally well-established third party company to manage our leased properties. The building manager is primarily responsible for the quality of our leased properties. However, we carry out site inspections and hold regular meetings with them so as to ensure the conditions of building services.

Complaint handling mechanisms are implemented at our leased properties with an aim to collect and address customer concerns. Complaints are documented upon receipt and followed up to improve future service quality.

The Group is committed to protecting customer privacy and has corresponding policies and procedures in place. Customer privacy data is handled with care, treated with strict confidentiality and accessible only by authorised personnel.

Anti-corruption

We operate our business with integrity, transparency and accountability. We have zero tolerance for any form of corruption, bribery or fraud. This principle has been well conveyed to our employees. Our whistleblowing policy allows employees to report observed and suspected misconducts, irregularities and malpractices in a confidential manner.

Community Investment

We collaborate with charitable organisations in finding sustainable solutions to address social challenges. During 2018, the Group made donations to several local charities to help the underprivileged, including the Community Chest of Hong Kong, St. James Settlement, and Little Sisters of the Poor.

Regulatory Compliance

The Group observes closely the laws and regulations relevant to our business and makes efforts to meeting regulatory expectations. During the reporting period, the Group was not aware of any non-compliance with laws and regulations that have a significant impact on the Group relating to areas such as environmental protection, employment and labour practices and operating practices.

The following environmental data are prepared in accordance to Appendix 27 of the Main Board Listing Rules issued by the Stock Exchange:

Environmental KPI Data Table

		Environmental Data (Group)	
Environmental KPIs	Unit	2018	2017
Total greenhouse gas (GHG) emissions	tonne CO_2e	4,846.16	3,858.99
Scope 1 – Direct emissions and removals	tonne CO_2e	1,998.11	271.63
Scope 2 – Energy indirect emissions	tonne CO_2e	2,848.05	3,587.36
Total energy consumption	kWh	3,877,562.61	4,512,604.49
Total direct energy consumption	kWh	1,605.61	1,284.49
Diesel	kWh	1,605.61	1,284.49
Total direct energy consumption intensity			
By revenue	kWh/Revenue HK$'000	0.01	0.01
Total indirect energy consumption	kWh	3,875,957.00	4,511,320.00
Purchased electricity	kWh	3,875,957.00	4,511,320.00
Total indirect energy consumption intensity			
By revenue	kWh/Revenue HK$'000	23.67	28.79
Water consumption	m^3	7,574.00	4,986.00
Water consumption intensity			
By revenue	m^3/Revenue HK$'000	0.05	0.03

Opinion

What we have audited

The consolidated financial statements of Nanyang Holdings Limited (the "Company") and its subsidiaries (the "Group") set out on pages 38 to 107, which comprise:

- the consolidated balance sheet as at 31 December 2018;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

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

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

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.

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.

The key audit matter identified in our audit is summarised as follows:

Key Audit Matter	*How our audit addressed the Key Audit Matter*
Valuation of investment properties held by the Group and its joint ventures Refer to note 4.1, 14 and 15 to the consolidated financial statements As at 31 December 2018, the Group's investment properties were stated at fair value of HK$2,553,230,000 and the fair value of investment properties held by joint ventures attributable to the Group amounted to HK$95,394,000. Management has engaged independent external valuers to perform valuation of the investment properties. The valuation of these investment properties requires significant judgement and estimates by management and the valuers. It is inherently subjective due to, among other factors, the individual nature of each property, its location and the expected future rentals for that particular property.	Our audit procedures in relation to the valuation of investment properties included: • We evaluated the valuers' qualifications and expertise and read their terms of engagement with the Group to assess whether there were any matters that affected their objectivity and scope of work. • We obtained the valuation reports for all properties and assessed whether the valuation approach adopted was suitable for determining the fair value for the purpose of the financial statements. • We held discussions with the valuers to assess the valuation approach and the key assumptions (including adjustments to comparable market data, discount rates and estimated market rent). • We performed testing over the source data provided by the Group to the external valuers, on a sample basis, to satisfy ourselves of the accuracy of the property information used by the valuers.

Key Audit Matters *(cont'd)*

Key Audit Matter	*How our audit addressed the Key Audit Matter*
Valuation of investment properties held by the Group and its joint ventures *(cont'd)* In determining a property's valuation, valuers used either the direct comparison approach or discounted cash flow method. They took into account property-specific information such as the location and age of the properties, adjustments to comparable market transactions, current tenancy agreements and rental income. They applied assumptions for discount rates and estimated market rent which were influenced by prevailing market yields and comparable market transactions, to arrive at the final valuation. Due to the significant judgement and estimates involved, specific audit focus was placed on this area.	Our audit procedures in relation to the valuation of investment properties included: *(cont'd)* • We assessed the reasonableness of the comparable market data and assumptions used by the external valuers by comparing these to our knowledge of the property market and published external data. We found that the valuation was supported by the available audit evidence.

Other Information

The directors of the Company are responsible for the other information. The other information comprises all of 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 Directors for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, the directors 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 Audit Committee assists the directors 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. We report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda 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.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements *(cont'd)*

- 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.

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements *(cont'd)*

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 Chan Ka Yee.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 27 March 2019

Consolidated Income Statement

For the Year ended 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
Revenue	5	163,752	156,681
Other (losses)/income	5	(41,787)	47,676
Revenue and other (losses)/income	5	121,965	204,357
Direct costs	6	(15,934)	(15,238)
Gross profit		106,031	189,119
Administrative expenses	6	(37,271)	(37,557)
Other operating (expenses)/income, net	8	(459)	7,311
Changes in fair value of investment properties		276,001	178,040
Operating profit		344,302	336,913
Finance income	9	1,231	201
Finance expense	9	(71)	(976)
Share of profits of joint ventures		11,140	6,089
Share of profit of an associate		–	31,504
Profit before income tax		356,602	373,731
Income tax expense	10	(22,084)	(18,748)
Profit attributable to equity holders of the Company		334,518	354,983
Earnings per share (basic and diluted)	11	HK$9.92	HK$10.11
Dividends	12	48,267	47,339

The notes on pages 44 to 107 are an integral part of these financial statements.

Consolidated Statement of Comprehensive Income

For the Year ended 31 December 2018

	2018 HK$'000	2017 HK$'000
Profit for the year	334,518	354,983
Other comprehensive income:		
Items that may be reclassified subsequently to profit or loss		
Fair value gains on available-for-sale financial assets	–	365,221
Share of other comprehensive income of joint ventures and an associate accounted for under equity method	(7,184)	20,696
Currency translation differences	4,123	10,139
Items that may not be reclassified subsequently to profit or loss		
Fair value gains on financial assets at fair value through other comprehensive income	241,438	–
Other comprehensive income for the year, net of tax	238,377	396,056
Total comprehensive income attributable to equity holders of the Company	572,895	751,039

The notes on pages 44 to 107 are an integral part of these financial statements.

Consolidated Balance Sheet

As at 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	13	296	421
Investment properties	14	2,553,230	2,269,120
Investments in joint ventures	15	109,007	109,283
Prepayment	19	9,739	15,407
Available-for-sale financial assets	18	–	1,434,081
Financial assets at fair value through other comprehensive income	18	1,674,111	–
Non-current financial assets at fair value through profit or loss	20	4,300	–
		4,350,683	3,828,312
Current assets			
Trade and other receivables	19	9,352	11,248
Financial assets at fair value through profit or loss	20	294,607	301,057
Current income tax recoverable		441	–
Cash and bank balances			
– Pledged bank deposits	21	13,353	24,989
– Cash and cash equivalents	21	164,620	172,148
		482,373	509,442
Total assets		4,833,056	4,337,754
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	22	3,448	3,507
Other reserves	23	1,471,922	1,233,558
Retained profits	23	3,272,585	3,016,513
Total equity		4,747,955	4,253,578

CONSOLIDATED BALANCE SHEET *(cont'd)*

As at 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
LIABILITIES			
Non-current liability			
Deferred income tax liabilities	26	25,213	22,960
Current liabilities			
Trade and other payables	24	50,846	50,712
Current income tax liabilities		–	1,101
Short-term borrowing	25	9,042	9,403
		59,888	61,216
Total liabilities		85,101	84,176
Total equity and liabilities		4,833,056	4,337,754

The notes on pages 44 to 107 are an integral part of these financial statements.

The financial statements on pages 38 to 107 were approved by the Board of Directors on 27 March 2019 and were signed on its behalf.

Hung Ching Yung
Director

Lincoln C. K. Yung
Director

Consolidated Statement of Changes in Equity

For the Year ended 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
Balance at 1 January		4,253,578	3,544,683
Comprehensive income:			
Profit for the year		334,518	354,983
Other comprehensive income:			
Items that may be reclassified subsequently to profit or loss			
Net fair value gains on available-for-sale financial assets	23	–	365,221
Share of other comprehensive income of joint ventures and an associate accounted for under equity method	23	(7,184)	20,696
Currency translation differences	23	4,123	10,139
Items that may not be reclassified subsequently to profit or loss			
Fair value gains on financial assets at fair value through other comprehensive income	23	241,438	–
Total other comprehensive income, net of tax		238,377	396,056
Total comprehensive income		572,895	751,039
Transactions with owners:			
Final dividend relating to 2017/2016	23	(24,434)	(21,070)
Special dividend	23	(22,688)	(14,046)
Shares repurchased and cancelled		(31,396)	(7,028)
Total transactions with owners		(78,518)	(42,144)
Balance at 31 December		4,747,955	4,253,578

The notes on pages 44 to 107 are an integral part of these financial statements.

Consolidated Statement of Cash Flows

For the Year ended 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
Cash flows from operating activities			
Net cash generated from operations	27(a)	87	19,305
Interest paid		(71)	(162)
Income tax paid		(5,080)	(3,794)
Net cash (used in)/generated from operating activities		(5,064)	15,349
Cash flows from investing activities			
Interest received		785	201
Proceeds from sales of an available-for-sale financial asset		–	187
Purchase of plant and equipment		(2)	(9)
Purchase of an available-for-sale financial asset		–	(3,893)
Dividends received from financial assets at fair value through other comprehensive income (2017: available-for-sale financial assets)	27(b)	59,469	57,503
Dividend received from a joint venture	27(b)	4,141	3,990
Return of investment/dividend received from an associate	16	–	97,450
Net cash inflows from investing activities		64,393	155,429
Cash flows from financing activities			
Repurchase of own shares		(31,396)	(7,028)
Dividends paid		(47,122)	(35,116)
Decrease/(increase) in pledged bank deposits		11,636	(24,989)
Drawdown of short-term borrowing		13,105	9,303
Repayment of short-term borrowing		(13,130)	–
Drawdown of bank loans		–	36,000
Repayment of bank loans		–	(36,000)
Net cash outflows from financing activities		(66,907)	(57,830)
Net (decrease)/increase in cash and cash equivalents		(7,578)	112,948
Cash and cash equivalents at 1 January		172,148	58,896
Currency translation difference		50	304
Cash and cash equivalents at 31 December	21	164,620	172,148

The notes on pages 44 to 107 are an integral part of these financial statements.

1 General information

Nanyang Holdings Limited ("the Company") is a limited liability company incorporated in Bermuda. The address of its office in Hong Kong is Room 1808 St George's Building, 2 Ice House Street, Central, Hong Kong.

The Company is listed on The Stock Exchange of Hong Kong Limited.

The Company and its subsidiaries (together the "Group") are engaged in property investment and investment holding and trading.

These consolidated financial statements are presented in thousands of Hong Kong dollars (HK$'000), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 27 March 2019.

2 Significant accounting policies

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of Nanyang Holdings Limited have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of investment properties, financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income (2017: available-for-sale financial assets), which are measured at fair value.

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

(a) **New standards, interpretation and amendments to standards that are effective in 2018 and are relevant to the Group's operations**

During the year ended 31 December 2018, the Group has adopted the following new standards, interpretation and amendments to standards which are mandatory for accounting periods beginning on 1 January 2018:

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

2 Significant accounting policies *(cont'd)*

2.1 Basis of preparation *(cont'd)*

(a) **New standards, interpretation and amendments to standards that are effective in 2018 and are relevant to the Group's operations** *(cont'd)*

The impact of the adoption of HKFRS 9 is disclosed in Note 2.1(c) below. The adoption of other new standard, interpretation and amendments to standards does not have any significant change to the accounting policies or any significant effect on the results and financial position of the Group.

(b) **New standards, interpretations and amendments to standards that are not yet effective and have not been early adopted by the Group**

		Effective for accounting periods beginning on or after
HKAS 19 (Amendments)	Plan Amendment, Curtailment or Settlement	1 January 2019
HKAS 28 (Amendments)	Long-term Interests in Associates and Joint Ventures	1 January 2019
HKFRS 3 (Amendments)	Definition of a Business	1 January 2020
HKFRS 9 (Amendments)	Prepayment Features with Negative Compensation	1 January 2019
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and Its Associate or Joint Venture	To be determined
HKFRS 16	Leases	1 January 2019
HKFRS 17	Insurance Contracts	1 January 2021
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments	1 January 2019
Annual Improvements	Annual Improvements to HKFRSs 2015–2017 Cycle	1 January 2019
Conceptual Framework for Financial Reporting 2018	Revised Conceptual Framework for Financial Reporting	1 January 2020

2 Significant accounting policies *(cont'd)*

2.1 Basis of preparation *(cont'd)*

(b) **New standards, interpretations and amendments to standards that are not yet effective and have not been early adopted by the Group** *(cont'd)*

HKFRS 16, 'Leases'

HKFRS 16 will result in almost all leases being recognised on the balance sheet by lessees, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of HK$455,000 (Note 29). The change in accounting for the Group's operating lease will result in the recognition of right-of-use assets and lease liabilities on the consolidated balance sheet. Based on the preliminary assessment, it is estimated that the impact to the Group's profit attributable to equity holders of the Company and total equity upon the adoption of HKFRS 16 is insignificant.

The new standard is mandatory for financial years commencing on or after 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption.

There are no other standards that are not yet effective and that would be expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

(c) **Changes in accounting policy**

As explained in Note 2.1(a) above, the Group has adopted HKFRS 9 from 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts recognised in the consolidated financial statements. Under the adoption of HKFRS 9, the Group has elected to use a modified retrospective approach for transition. The reclassifications and the adjustments arising from the new standard are therefore not restated in the balance sheet as at 31 December 2017, but are recognised in the opening balance sheet on 1 January 2018.

The table below shows the adjustments recognised in the opening balances of each individual financial statement line item. Line items that were not affected by the changes have not been included.

2 Significant accounting policies *(cont'd)*

2.1 Basis of preparation *(cont'd)*

(c) **Changes in accounting policy** *(cont'd)*

Consolidated Balance Sheet (extract)

	As at 31 December 2017 As Previously reported HK$'000	Effects of the adoption of HKFRS 9 HK$'000	As at 1 January 2018 As restated HK$'000
Non-current assets			
Available-for-sale financial assets	1,434,081	(1,434,081)	–
Financial assets at fair value through other comprehensive income	–	1,429,142	1,429,142
Non-current financial assets at fair value through profit or loss	–	4,939	4,939
Equity			
Other reserves	1,233,558	(578)	1,232,980
Retained profits	3,016,513	578	3,017,091

On 1 January 2018, the Group's management has assessed the business models and the contractual cash flow characteristics of each of the financial instruments, and has classified them into appropriate categories under HKFRS 9.

The Group has elected to present changes in the fair value of its equity investments not held for trading (previously classified as available-for-sale financial assets) in other comprehensive income. Under this election, dividends from such investments continue to be recognised in profit or loss when the Group's right to receive payments is established. Changes in fair value are recognised in other comprehensive income and never recycled to profit and loss, even if the asset is impaired, sold or otherwise derecognised. Accordingly, available-for-sale financial assets with carrying value of HK$1,429.1 million were reclassified to financial assets at fair value through other comprehensive income (FVOCI) and the corresponding accumulated fair value gains of HK$1,076.8 million were transferred from available-for-sale investments reserve to financial assets at FVOCI reserve on 1 January 2018 respectively.

The investments in funds do not meet the criteria to be classified as FVOCI and hence, available-for-sale financial assets with carrying value of HK$4.9 million were reclassified to non-current financial assets at fair value through profit or loss on 1 January 2018. The corresponding accumulated fair value gains of HK$0.6 million were transferred from the available-for-sale investments reserve to retained profits on 1 January 2018. Subsequent fair value changes will be recognised in the profit and loss.

The adoption of the new impairment model as at 1 January 2018 had not resulted in material impact on the carrying amount of the Group's financial assets.

2 Significant accounting policies *(cont'd)*

2.2 Subsidiaries

(a) **Consolidation**

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(i) *Business combinations*

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement and fair value of any pre-existing equity interest in the subsidiary. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by HKFRS.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions. Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

2 Significant accounting policies *(cont'd)*

2.2 Subsidiaries *(cont'd)*

(a) **Consolidation** *(cont'd)*

(i) *Business combinations (cont'd)*

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net identifiable assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

(ii) *Changes in ownership interests in subsidiaries without change of control*

The Group treats transactions with non-controlling interests that do not result in a loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognised in a separate reserve within equity attributable to owners of Nanyang Holdings Limited.

(iii) *Disposal of subsidiaries*

When the Group ceases to consolidate or equity account for an investment because of a loss of control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value with the change in carrying amount recognised in profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs.

(b) **Separate financial statements**

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2 Significant accounting policies *(cont'd)*

2.3 Joint arrangements

The Group has applied HKFRS 11 to all joint arrangements. Under HKFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. Upon the acquisition of the ownership interest in a joint venture, any difference between the cost of the joint venture and the group's share of the net fair value of the joint venture's identifiable assets and liabilities is accounted for as goodwill. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

2.4 Associates

An associate is an entity over which the Group has significant influence but not control or joint control, generally accompanying a shareholding of between 20% and 50% of the voting rights. The existence of significant influence is also usually evidenced by the representation on the board of directors or equivalent governing body of the entity, and participation in policy-making processes. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investments in associates include goodwill identified on acquisition. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the Group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

2 Significant accounting policies *(cont'd)*

2.4 Associates *(cont'd)*

The Group's share of post-acquisition profit or loss is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount under 'share of profit of an associate' in the consolidated income statement.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Gains or losses on dilution of equity interest in associates are recognised in the income statement.

2.5 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors. The Board of Directors reviews the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports and analysed from a business prospective.

2 Significant accounting policies *(cont'd)*

2.6 Foreign currency translation

(a) **Functional and presentation currency**

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Hong Kong dollars (HK$), which is the Company's functional currency and the Group's presentation currency.

(b) **Transactions and balances**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings are presented in the income statement within 'finance income or expense'. All other foreign exchange gains and losses are presented in the income statement within 'other operating (expenses)/income, net'.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss. For example, translation differences on non-monetary assets and liabilities such as equities held at fair value through profit or loss are recognised in the income statement as part of the fair value gain or loss and translation differences on non-monetary assets such as equities classified as financial assets at fair value through other comprehensive income are recognised in other comprehensive income.

2 Significant accounting policies *(cont'd)*

2.6 Foreign currency translation *(cont'd)*

(c) **Group companies**

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

– assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

– income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rates prevailing at the dates of the transactions); and

– all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(d) **Disposal of foreign operation and partial disposal**

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a joint venture that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the currency translation differences accumulated in equity in respect of that operation attributable to the owners of the company are reclassified to profit or loss.

In the case of a partial disposal that does not result in the group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated currency translation differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (that is, reductions in the group's ownership interest in associates or joint ventures that do not result in the group losing significant influence or joint control), the proportionate share of the accumulated exchange difference is reclassified to profit or loss.

2 Significant accounting policies *(cont'd)*

2.7 Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance costs are charged to the income statement during the financial period in which they are incurred.

Leasehold land classified as finance lease commences amortisation from the time when the land interest becomes available for its intended use. Amortisation on leasehold land classified as finance lease and depreciation on other assets is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Leasehold land classified as finance lease	Over the remaining lease term
Buildings	25 years
Others	5 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.9).

Gains and losses on disposals are determined by comparing proceeds with carrying amount, and are recognised in the income statement.

2.8 Investment properties

Investment property, principally comprising leasehold land and office buildings, is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group. Land held under operating leases is accounted for as investment properties when the rest of the definition of an investment property is met. In such cases, the operating leases concerned are accounted for as if they were finance leases. Investment property is initially measured at cost, including related transaction costs and where applicable borrowing costs. After initial recognition investment properties are carried at fair value, representing open market value determined at each reporting date by external valuers. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. Changes in fair values are recorded in the income statement as changes in fair value of investment properties.

2 Significant accounting policies *(cont'd)*

2.9 Impairment of non-financial assets

Intangible assets that have an indefinite useful life are not subject to amortisation and are at least tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.10 Financial assets

(a) **Classification**

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

– those to be measured subsequently at fair value (either through other comprehensive income (OCI) or through profit or loss), and

– those to be measured at amortised cost.

The classification depends on the entity's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI. For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income (FVOCI).

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

2 Significant accounting policies *(cont'd)*

2.10 Financial assets *(cont'd)*

(b) **Recognition and measurement**

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

– Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in other operating income/(expenses) together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the income statement.

– FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in other operating income/(expenses). Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other operating income/(expenses) and impairment expenses are presented as separate line item in the income statement.

– FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within other income/(losses) in the period in which it arises.

2 Significant accounting policies *(cont'd)*

2.10 Financial assets *(cont'd)*

(b) **Recognition and measurement** *(cont'd)*

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in other income/(losses) in the income statement as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

(c) **Impairment of financial assets**

From 1 January 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For trade receivables, the Group applies the simplified approach permitted by HKFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see note 19 for further details.

(d) **Accounting policies applied until 31 December 2017**

(i) *Classification*

The Group has applied HKFRS 9 retrospectively, but has elected not to restate comparative information. As a result, the comparative information provided continues to be accounted for in accordance with the group's previous accounting policy.

Until 31 December 2017, the Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at initial recognition.

– *Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

2 Significant accounting policies *(cont'd)*

2.10 Financial assets *(cont'd)*

(d) **Accounting policies applied until 31 December 2017** *(cont'd)*

(i) *Classification (cont'd)*

– *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the balance sheet date. These are classified as noncurrent assets. The Group's loans and receivables comprise trade and other receivables, cash and cash equivalents and pledged bank deposits in the balance sheet.

– *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of the investment within 12 months of the balance sheet date.

(ii) *Recognition and measurement*

Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement as gains and losses on financial assets through profit or loss in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement when the Group's right to receive payments is established.

Changes in the fair value of monetary securities classified as available for sale are recognised in other comprehensive income.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement as 'gains and losses from available-for-sale financial assets'.

Dividends on available-for-sale financial assets are recognised in the income statement as dividend income from available-for-sale financial assets when the Group's right to receive payments is established.

2 Significant accounting policies *(cont'd)*

2.10 Financial assets *(cont'd)*

(d) **Accounting policies applied until 31 December 2017** *(cont'd)*

(iii) *Impairment*

– *Assets carried at amortised cost*

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

– *Assets classified as available-for-sale*

The Group assesses at the balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. For equity investments, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement.

2 Significant accounting policies *(cont'd)*

2.10 Financial assets *(cont'd)*

(e) **Offsetting financial instruments**

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

2.11 Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

Derivative instruments which do not qualify for hedge accounting are accounted for at fair value through profit or loss, changes in the fair value of these derivative instruments that do not qualify for hedge accounting are recognised in the income statement.

2.12 Trade and other receivables

Trade receivables are amounts due from customers for services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets. Trade and other receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2.13 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts, if any. In the consolidated and entity balance sheet, bank overdrafts are shown within borrowings in current liabilities.

2.14 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2 Significant accounting policies *(cont'd)*

2.15 Current and deferred income tax

The tax expense for the year comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) **Current income tax**

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) **Deferred income tax**

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates and laws that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates. Only where there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred tax liability in relation to taxable temporary differences arising from the associate's undistributed profits is not recognised.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

2 Significant accounting policies *(cont'd)*

2.15 Current and deferred income tax *(cont'd)*

(c) **Offsetting**

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.16 Employee benefits

(a) **Pension obligations**

The Group has defined contribution plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(b) **Employee leave entitlements**

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

2.17 Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

2 Significant accounting policies *(cont'd)*

2.17 Provisions *(cont'd)*

Provisions are measured at the present value of the expenditure expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.18 Revenue recognition

(a) **Rental and management fee income**

Rental on operating leases are recognised on a straight-line basis over the lease periods. Management fee income is recognised over the period when services are rendered.

(b) **Dividend income**

Dividends are received from financial assets measured at fair value through profit or loss (FVPL) and at fair value through other comprehensive income (FVOCI) (2017: from financial assets at FVPL and available-for-sale financial assets). Dividends are recognised in profit or loss when the right to receive payment is established.

(c) **Interest income**

Interest income on financial assets at amortised cost and financial assets at FVPL (2017: loans and receivables) calculated using the effective interest method is recognised in profit or loss as part of other income.

2.19 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

2 Significant accounting policies *(cont'd)*

2.20 Borrowings and borrowing costs

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Other borrowing costs are expensed in the period in which they are incurred.

2.21 Share capital

Ordinary shares are classified as equity.

2.22 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the financial statements in the financial period when the dividends are approved by the Company's shareholders or directors, where appropriate.

3 Financial risk management

The Group's investment activities expose it to various types of risk which are associated with the financial instruments and markets in which it invests. The types of financial risk to which the Group is exposed are market risk (including equity price risk, foreign currency risk and interest rate risk), credit and counterparty risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise the potential adverse effects it may have on the Group's financial performance.

3.1 Financial risk factors

(a) **Market risk**

(i) Equity price risk

The Group's equity securities are exposed to price risk including currency translation difference as they are classified either as financial assets at fair value through other comprehensive income (2017: available-for-sale financial assets) or as financial assets at fair value through profit or loss. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio.

The Group's financial assets at fair value through other comprehensive income are mainly listed equity securities (2017: available-for-sale financial assets are mainly unlisted equity securities). Had the price of these investments increased/decreased by 5% with all other variables held constant, the equity would have been HK$83,706,000 (2017: HK$71,704,000) higher/lower.

The Group's financial assets at fair value through profit or loss are publicly traded. Had the price of these investments increased/decreased by 5% with all other variables held constant, the post-tax profit for the year ended 31 December 2018 would have been HK$8,923,000 (2017: HK$11,692,000) higher/lower.

3 Financial risk management *(cont'd)*

3.1 Financial risk factors *(cont'd)*

(a) **Market risk** *(cont'd)*

(ii) *Foreign currency risk*

The Group's exposure to foreign currency risk mainly arises from its investments in securities worldwide, bank balances and short-term borrowing, primarily with respect to Euro ("EUR"), Japanese yen ("JPY"), Renminbi ("RMB") and New Taiwan Dollars ("NTD"). The Group monitors the proportion of its financial investments denominated in non-US/HK dollars.

At 31 December 2018, had the HK dollar weakened/strengthened by 5% against the EUR with all other variables held constant, the post-tax profit for the year ended 31 December 2018 would have been HK$1,657,000 (2017: HK$2,473,000) higher/lower, mainly as a result of net foreign exchange gains/losses on translation of Euro-denominated financial assets at fair value through profit or loss and short-term borrowing.

At 31 December 2018, had the HK dollar weakened/strengthened by 5% against the JPY with all other variables held constant, the post-tax profit for the year ended 31 December 2018 would have been HK$210,000 (2017: HK$694,000) higher/lower, mainly as a result of foreign exchange gains/losses on translation of Japanese yen-denominated financial assets at fair value through profit or loss.

At 31 December 2018, had the HK dollar weakened/strengthened by 5% against the RMB with all other variables held constant, the post-tax profit for the year ended 31 December 2018 would have been HK$49,000 (2017: HK$1,509,000) higher/lower, mainly as a result of foreign exchange gains/losses on translation of Renminbi-denominated financial assets at fair value through profit or loss (2017: also included bank balances).

At 31 December 2018, had the HK dollar weakened/strengthened by 5% against the NTD with all other variables held constant, the equity would have been HK$83,414,000 (2017: HK$71,150,000) higher/lower, mainly as a result of currency translation gain/loss on the New Taiwan dollars-denominated listed equity securities classified as financial assets at fair value through other comprehensive income (2017: unlisted equity securities classified as available-for-sale financial assets).

3 Financial risk management *(cont'd)*

3.1 Financial risk factors *(cont'd)*

(a) **Market risk** *(cont'd)*

(iii) *Interest rate risk*

The Group is exposed to interest rate risk through the impact of rate changes on interest bearing assets and liabilities.

Bank deposits and short-term borrowing issued at variable rates expose the Group to cash flow interest rate risk. The Group manages its exposure to interest rate risk by maintaining borrowings at a low level.

As at 31 December 2018, had interest rates been 1% higher/lower with all other variables held constant, the post-tax profit for the year ended 31 December 2018 would have been HK$636,000 higher/lower (2017: HK$267,000), mainly as a result of higher/lower interest income on bank deposits net off with interest expense on short-term borrowing.

(b) **Credit and counterparty risk**

The credit and counterparty risk mainly arises from debt securities investments held under financial assets at fair value through profit or loss, deposits, cash and investments placed with banks and financial institutions and derivative financial instruments transacted with banks. The Group has limited its credit exposure by restricting their selection to financial institutions or banks with good credit rating, ranged from A to AA-.

The Group's credit risk concentration of investments of listed debt securities as at 31 December 2018 and 2017 is analysed below based upon the credit rating of the issuers:

	2018 HK$'000	2017 HK$'000
A to AAA	6,891	16,927
B to BBB	7,786	17,769
Unrated (Note)	6,064	4,651
	20,741	39,347

Note:

The Directors monitor the exposure on unrated assets and considered that the risk of default is minimal.

3 Financial risk management *(cont'd)*

3.1 Financial risk factors *(cont'd)*

(c) **Liquidity risk**

In order to maintain flexibility in funding, the Group has obtained banking facilities.

Management monitors rolling forecasts of the Group's liquidity reserve (comprises undrawn borrowing facility and cash and cash equivalents) on the basis of expected cash flows.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity dates.

The amounts disclosed in the table are the contractual undiscounted cash flows including interest payment.

	Less than 1 year HK$'000	Between 1 and 2 years HK$'000	Between 2 and 5 years HK$'000	Total HK$'000
At 31 December 2018				
Trade payables	3,304	–	–	3,304
Rental and management fee deposits	5,687	7,470	5,816	18,973
Other payables and accruals (less provisions)	21,632	–	–	21,632
Short-term borrowing (including interest payment)	9,099	–	–	9,099
	39,722	7,470	5,816	53,008
At 31 December 2017				
Trade payables	3,656	–	–	3,656
Rental and management fee deposits	8,147	6,018	3,974	18,139
Other payables and accruals (less provisions)	22,631	–	–	22,631
Short-term borrowing (including interest payment)	9,409	–	–	9,409
	43,843	6,018	3,974	53,835

3 Financial risk management *(cont'd)*

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares or sell assets to reduce debt.

During 2018 and 2017, the Group's strategy was to maintain borrowings at a low level.

As at 31 December 2018 and 2017, the debt to equity ratio were as follows:

	2018 HK$'000	2017 HK$'000
Total borrowing (Note 25)	9,042	9,403
Total equity	4,747,955	4,253,578
Debt to equity ratio	0.2%	0.2%

3.3 Fair value estimation

The table below analyses financial instruments carried at fair value, by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the assets or liabilities, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the assets or liabilities that are not based on observable market data (that is, unobservable inputs) (level 3).

3 Financial risk management *(cont'd)*

3.3 Fair value estimation *(cont'd)*

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2018. See Note 14 for disclosures of the investment properties that are measured at fair value.

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Assets				
Non-current financial assets at fair value through profit or loss	–	–	4,300	4,300
Current financial assets at fair value through profit or loss	182,303	22,685	89,619	294,607
Financial assets at fair value through other comprehensive income	1,674,111	–	–	1,674,111
Total assets	1,856,414	22,685	93,919	1,973,018

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2017.

	Level 1 HK$'000	Level 2 HK$'000	Level 3 HK$'000	Total HK$'000
Assets				
Financial assets at fair value through profit or loss	211,282	20,138	69,637	301,057
Available-for-sale financial assets	1,429,407	–	4,674	1,434,081
Total assets	1,640,689	20,138	74,311	1,735,138

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

3 Financial risk management *(cont'd)*

3.3 Fair value estimation *(cont'd)*

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

As at 31 December 2018, non-current financial assets at fair value through profit or loss of HK$4,300,000 (2017: available-for-sale financial assets of HK$4,939,000) and financial assets at fair value through profit or loss of HK$89,619,000 (2017: HK$69,637,000) are measured with valuation techniques using significant unobservable inputs (level 3). These valuation techniques and methods, including net asset values and prices observed in recent transactions, are generally recognised within the financial investment industry.

The following table presents the changes in level 3 instruments for the year ended 31 December 2018:

	Available-for-sale financial assets HK$'000	Non-current financial assets at fair value through profit or loss HK$'000	Current financial assets at fair value through profit or loss HK$'000	Total HK$'000
At 31 December 2017 (as previously reported)	4,939	–	69,637	74,576
Effects of the adoption of HKFRS 9 (Note)	(4,939)	4,939	–	–
At 1 January 2018 (as restated)	–	4,939	69,637	74,576
Additions	–	–	30,080	30,080
Change in fair value recognised in profit or loss	–	(639)	(10,098)	(10,737)
At 31 December 2018	–	4,300	89,619	93,919

Note:

See note 2.1(c) for the reclassification following the adoption of HKFRS 9.

4 Critical accounting estimates and judgements

4.1 Estimate of fair value of investment properties

The Group's investment properties, which are leased to third parties, were revalued at 31 December 2018 by an independent professional property valuer on an open market value basis with reference to recent transaction prices of units in the same building and/or similar properties. Details of the judgement and assumptions have been disclosed in Note 14.

4.2 Classification of listed financial assets at fair value through other comprehensive income (2017: Classification and estimate of fair value of unlisted available-for-sale financial assets)

In connection with the Group's investment in The Shanghai Commercial & Savings Bank, Ltd ("SCSB"), certain Directors of the Company are also directors of SCSB. Their appointment as directors of SCSB was not nominated by the Group and does not represent the Group's interest. Accordingly, the Group does not have significant influence in SCSB and the investments in SCSB are classified as a financial asset at fair value through other comprehensive income (2017: available-for-sale financial asset).

In 2017, the fair value of unlisted available-for-sale financial assets was determined by the quoted bid price in the over-the-counter market. The Group considered that this price represented actual and regularly occurring market transactions on an arm's length basis and reflected the fair value of the investment. SCSB was subsequently listed on the Taiwan Stock Exchange in 2018.

5 Revenue and other (losses)/income and segment information

Revenue mainly comprises rental income, investment income from financial assets at fair value through profit or loss and dividend income from financial assets at fair value through other comprehensive income (2017: available-for-sale financial assets). Other (losses)/income represents net realised and unrealised (losses)/gains on financial assets at fair value through profit or loss. Revenue and other (losses)/income recognised during the year comprises the following:

	2018 HK$'000	2017 HK$'000
Revenue		
Gross rental income from investment properties	72,406	71,204
Investment income from financial assets at fair value through profit or loss	4,898	4,067
Dividend income from financial assets at fair value through other comprehensive income (2017: available-for-sale financial assets)	75,276	70,142
Management fee income from investment properties	10,843	10,914
Other	329	354
	163,752	156,681
Other (losses)/income		
Net realised and unrealised (losses)/gains on financial assets at fair value through profit or loss	(41,787)	47,676
Revenue and other (losses)/income	121,965	204,357

5 Revenue and other (losses)/income and segment information *(cont'd)*

Management fee income is recognised over a period of time when the related performance obligation is satisfied. Contract liabilities in relation to management services and the transaction price allocated to these unsatisfied contracts as at 31 December 2018 amounted to HK$128,000 (2017: HK$144,000) respectively.

The Group is organised on a worldwide basis into two main business segments:

Real estate	– investment in and leasing of industrial/office premises
Financial investments	– holding and trading of investment securities

There are no sales or other transactions between the business segments.

The segment results for the year ended 31 December 2018 are as follows:

	Real estate HK$'000	Financial investments HK$'000	Total HK$'000
Revenue and other (losses)/income	83,249	38,716	121,965
Segment results	311,690	32,612	344,302
Finance income			1,231
Finance expense			(71)
Share of profits of joint ventures	11,140	–	11,140
Profit before income tax			356,602
Income tax expense			(22,084)
Profit attributable to equity holders of the Company			334,518
Other items			
Depreciation	(103)	(24)	(127)
Fair value gain on investment properties	276,001	–	276,001

5 Revenue and other (losses)/income and segment information *(cont'd)*

The segment results for the year ended 31 December 2017 are as follows:

	Real estate HK$'000	Financial investments HK$'000	Total HK$'000
Revenue and other (losses)/income	82,118	122,239	204,357
Segment results	213,986	122,927	336,913
Finance income			201
Finance expense			(976)
Share of profits of joint ventures	6,089	–	6,089
Share of profit of an associate	31,504	–	31,504
Profit before income tax			373,731
Income tax expense			(18,748)
Profit attributable to equity holders of the Company			354,983
Other items			
Depreciation	(111)	(24)	(135)
Fair value gain on investment properties	178,040	–	178,040

Reportable segments' assets and liabilities are reconciled to total assets and liabilities below. Segment assets exclude investments in joint ventures and segment liabilities exclude deferred income tax liabilities and short-term borrowing which are managed on a central basis.

5 Revenue and other (losses)/income and segment information *(cont'd)*

The segment assets and liabilities as at 31 December 2018 are as follows:

	Real estate HK$'000	Financial investments HK$'000	Total HK$'000
Segment assets	2,553,630	2,170,419	4,724,049
Investments in joint ventures	109,007	–	109,007
			4,833,056
Segment liabilities	47,808	3,038	50,846
Unallocated liabilities			34,255
			85,101

The segment assets and liabilities as at 31 December 2017 are as follows:

	Real estate HK$'000	Financial investments HK$'000	Total HK$'000
Segment assets	2,269,672	1,958,799	4,228,471
Investments in joint ventures	109,283	–	109,283
			4,337,754
Segment liabilities	48,913	2,900	51,813
Unallocated liabilities			32,363
			84,176

5 Revenue and other (losses)/income and segment information *(cont'd)*

The Company is incorporated in Bermuda and is domiciled in Hong Kong. The Group's revenue and other (losses)/income from Hong Kong and from other countries for the year ended 31 December is analysed as follows:

	2018 HK$'000	2017 HK$'000
Hong Kong	75,292	104,278
United States of America	(14,409)	17,359
Europe	(8,021)	13,470
Taiwan	75,275	63,196
Other countries	(6,172)	6,054
	121,965	204,357

At 31 December 2018, the total of non-current assets other than financial instruments located/operated in Hong Kong and in Mainland China are as follows:

	2018 HK$'000	2017 HK$'000
Hong Kong	2,563,096	2,284,755
Mainland China	109,176	109,476
	2,672,272	2,394,231

6 Expenses by nature

	2018 HK$'000	2017 HK$'000
Auditor's remuneration	1,675	1,675
Depreciation	127	135
Direct operating expenses arising from investment properties that		
– generated rental income	2,267	1,628
– did not generate rental income	30	51
Employee benefit expense (including directors' emoluments) (Note 7)	28,454	28,768
Management fee expense in respect of investment properties	11,114	11,114
Operating lease payments on land and buildings	3,867	3,835
Legal and professional fee	1,029	1,074
Others	4,642	4,515
Total direct costs and administrative expenses	53,205	52,795

7 Employee benefit expense

	2018 HK$'000	2017 HK$'000
Wages and salaries	28,243	28,555
Retirement benefit costs – defined contribution plans (Note a)	211	213
	28,454	28,768

Notes:

(a) **Retirement scheme – defined contribution plans**
With effect from 1 December 2000, a mandatory provident fund scheme has been set up for the other eligible employees of the Group in Hong Kong. Contributions to the scheme by the Group are made at a certain percentage of basic monthly salary. The assets of the scheme are held separately from those of the Group in an independently administered fund. Contributions totaling HK$32,285 (2017: HK$32,305) were payable to the scheme at the year end, which are included in trade and other payables.

7 Employee benefit expense *(cont'd)*

Notes: *(cont'd)*

(b) **Directors' and senior management's emoluments**

The remuneration of every Director for the year ended 31 December 2018 is set out below:

Name of Director	Fees HK$'000	Salaries HK$'000	Discretionary bonuses HK$'000	Housing allowances HK$'000	Other benefits# HK$'000	Employer's contributions to retirement scheme HK$'000	Total HK$'000
Mr. Rudolf Bischof	480	–	–	–	–	–	480
Mr. Hung Ching Yung	24	5,343	2,158	285	147	18	7,975
Mr. Lincoln C. K. Yung	24	5,343	2,158	98	229	18	7,870
Mr. Robert Tsai To Sze	480	–	–	–	–	–	480
Mr. John Con-sing Yung	240	–	–	–	–	–	240
Mr. Wong Chi Kwong Patrick	420	–	–	–	–	–	420
Ms. Jennie Chen	24	2,293	618	–	–	18	2,953
Total	1,692	12,979	4,934	383	376	54	20,418

7 Employee benefit expense *(cont'd)*

Notes: *(cont'd)*

(b) **Directors' and senior management's emoluments** *(cont'd)*

The remuneration of every Director for the year ended 31 December 2017 is set out below:

Name of Director	Fees HK$'000	Salaries HK$'000	Discretionary bonuses HK$'000	Housing allowances HK$'000	Other benefits # HK$'000	Employer's contributions to retirement scheme HK$'000	Total HK$'000
Mr. Rudolf Bischof	480	–	–	–	–	–	480
Mr. Hung Ching Yung	24	5,343	2,158	289	187	18	8,019
Mr. Lincoln C. K. Yung	24	5,343	2,158	106	229	18	7,878
Mr. Robert Tsai To Sze	480	–	–	–	–	–	480
Mr. John Con-sing Yung	240	–	–	–	–	–	240
Mr. Kwan Wing Kwong Zachary (Note i)	168	–	–	–	–	–	168
Mr. Wong Chi Kwong Patrick	420	–	–	–	–	–	420
Ms. Jennie Chen	24	2,293	618	–	–	18	2,953
Total	1,860	12,979	4,934	395	416	54	20,638

Other benefits represent motor vehicle expenses.

Note:

(i) Mr. Kwan Wing Kwong Zachary retired on 25 May 2017.

7 Employee benefit expense *(cont'd)*

Notes: *(cont'd)*

(c) **Five highest paid individuals**

The five highest paid individuals in the Group include 3 (2017: 3) Directors whose emoluments are reflected in the analysis presented in Note 7(b) above. The emoluments payable to the remaining individuals during the year are as follows:

	2018 HK$'000	2017 HK$'000
Salaries, housing and other allowances and benefits in kind	3,054	3,054
Contributions to retirement scheme	36	36
	3,090	3,090

The emoluments fell within the following bands:

	Number of individuals 2018	 2017
Emolument bands		
HK$1,000,001 – HK$1,500,000	1	1
HK$1,500,001 – HK$2,000,000	1	1

8 Other operating (expenses)/income, net

	2018 HK$'000	2017 HK$'000
Reversal of provision for indemnity (Note)	–	6,215
Net exchange gain on operating activities	190	1,745
Others	(649)	(649)
	(459)	7,311

Note:

On 24 January 2014, the Group disposed of its interest in a joint venture and recognised a provision for indemnity in connection with the disposal. During the year ended 31 December 2017, the indemnity expired and a reversal of provision for indemnity was recognised.

9 Finance income/(expense)

	2018 HK$'000	2017 HK$'000
Finance income		
Net exchange gain on financing activities	446	–
Bank interest income	785	201
	1,231	201
Finance expense		
Interest expense on short-term borrowing and bank loans	(71)	(162)
Net exchange loss on financing activities	–	(814)
	(71)	(976)

10 Income tax expense

Hong Kong profits tax has been provided at 16.5% (2017: 16.5%) of the estimated assessable profits for the year. Withholding tax on dividends receivable from overseas investments including joint ventures and an associate has been calculated at the rates of taxation prevailing in the countries in which the investees operate.

The amount of taxation charged to the consolidated income statement represents:

	2018 HK$'000	2017 HK$'000
Current income tax		
– Hong Kong profits tax	3,491	4,624
– Withholding tax	16,431	13,056
– Over-provision in prior years	(91)	(187)
	19,831	17,493
Deferred income tax (Note 26)	2,253	1,255
	22,084	18,748

The Group's share of income tax expense of joint ventures for the year amounted to HK$3,677,000 (2017: joint ventures and an associate of HK$27,434,000) and is included in the consolidated income statement as share of results of joint ventures and an associate.

10 Income tax expense *(cont'd)*

The taxation on the Group's profit before income tax differs from the theoretical amount that would arise using the profits tax rate of Hong Kong where the Group operates, and the difference is set out below:

	2018 HK$'000	2017 HK$'000
Profit before income tax	356,602	373,731
Less: share of profits of joint ventures	(11,140)	(6,089)
Less: share of profit of an associate	–	(31,504)
	345,462	336,138
Calculated at a tax rate of 16.5% (2017: 16.5%)	57,001	55,463
Income not subject to tax	(59,237)	(50,344)
Expenses not deductible for tax purposes	8,124	1,722
Tax concession (Note)	(165)	–
Over-provision for current income tax in prior years	(91)	(187)
Effect of unrecognised temporary differences	(12)	(13)
Utilisation of previously unrecognised tax losses	–	(949)
Tax loss not recognised	33	–
Withholding tax on dividend income from overseas investments and a joint venture	16,431	13,056
Income tax expense	22,084	18,748

Note:

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the 'Bill') which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of qualifying corporations will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of corporations not qualifying for the two-tiered profits tax rates regime will continue to be taxed at 16.5%. The two-tiered profits tax rate regime is applicable to the Group for the year ended 31 December 2018 and only one subsidiary in the Group could elect for the two-tiered rates regime.

11 Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	2018	2017
Earnings (HK$'000)		
Profit attributable to equity holders of the Company	334,518	354,983
Number of shares (thousands)		
Weighted average number of ordinary shares in issue	33,709	35,127
Earnings per share (HK$)		
Basic and diluted (Note)	9.92	10.11

Note: The Company has no dilutive potential ordinary shares and diluted earnings per share are equal to basic earnings per share.

12 Dividends

	2018 HK$'000	2017 HK$'000
2018 proposed final dividend of HK$0.70 (2017: HK$0.70) per share	24,133	24,546
2018 proposed special dividend of HK$0.70 (2017: HK$0.65) per share	24,134	22,793
	48,267	47,339

At a meeting held on 27 March 2019 the Directors proposed a final dividend of HK$0.70 (2017: HK$0.70) per share and a special dividend of HK$0.70 (2017: HK$0.65) per share representing a total dividend distribution of approximately HK$48.3 million (2017: HK$47.3 million). These proposed dividends are to be approved by the shareholders at the Annual General Meeting on 23 May 2019 and are not reflected as dividends payable in these financial statements.

13 Property, plant and equipment

	Properties HK$'000	Others HK$'000	Total HK$'000
Year ended 31 December 2018			
Opening net book amount	311	110	421
Addition	–	2	2
Depreciation	(53)	(74)	(127)
Closing net book amount	258	38	296
At 31 December 2018			
Cost	6,089	2,408	8,497
Accumulated depreciation and impairment losses	(5,831)	(2,370)	(8,201)
Net book amount	258	38	296
Year ended 31 December 2017			
Opening net book amount	365	184	549
Addition	–	9	9
Disposals	–	(2)	(2)
Depreciation	(54)	(81)	(135)
Closing net book amount	311	110	421
At 31 December 2017			
Cost	6,089	2,406	8,495
Accumulated depreciation and impairment losses	(5,778)	(2,296)	(8,074)
Net book amount	311	110	421

14 Investment properties

	2018 HK$'000	2017 HK$'000
At fair value		
Opening balance at 1 January	2,269,120	2,091,080
Additions	8,109	–
Fair value changes	276,001	178,040
Closing balance at 31 December	2,553,230	2,269,120

The Group's investment properties with an aggregate carrying value of HK$2,387,000,000 (2017: HK$2,107,000,000) have been mortgaged to a bank to secure general banking facilities. As at 31 December 2018 and 2017, no bank facilities was utilised.

Valuation processes of the Group

The basis of the valuation of investment properties is fair value being the amount for which the property could be exchanged between willing parties in an arm's length transaction, based on current prices in an active market for similar properties in the same location and condition and subject to similar leases. The investment properties were revalued by Prudential Surveyors (Hong Kong) Limited, an independent qualified valuer not related to the Group, who holds a recognised relevant professional qualification and has recent experience in the locations and segments of the investment properties valued, at 31 December 2018. For all investment properties, their current use equates to the highest and best use.

The Group's finance department reviews the valuations performed by the independent valuers for financial reporting purposes. This department reports directly to the senior management. Discussions of valuation processes and results are held between the management and valuers at least once every six months, in line with the Group's interim and annual reporting dates.

At each financial year end the finance department:

- Verifies all major inputs to the independent valuation report;
- Assesses property valuations movements when compared to the prior year valuation report;
- Holds discussions with the independent valuers.

14 Investment properties *(cont'd)*

Valuation techniques

Fair value measurements using significant unobservable inputs

Fair values of completed industrial and commercial properties in Hong Kong are generally derived using the direct comparison method. Direct comparison method is based on comparing the property to be valued directly with other comparable properties, which have recently transacted. However, given the heterogeneous nature of real estate properties, appropriate adjustments are usually required to allow for any qualitative differences that may affect the price likely to be achieved by the property under consideration.

As at 31 December 2018, all investment properties are included in level 3 fair value hierarchy.

There were no change to the valuation techniques during the year and there were no transfers between fair value hierarchies during the year.

Significant inputs used to determine fair value

Information about fair value measurements using significant unobservable inputs for the Group's principal investment properties

Descriptions	Fair Value 2018 HK$'000	2017 HK$'000	Valuation techniques	Unobservable inputs	Relationship of unobservable inputs of fair value
Commercial	2,440,630	2,161,220	Direct comparison	Average unit rate – HK$7,290 – HK$14,424 per square feet (2017: HK$6,489 – HK$14,583 per square feet) Carpark: HK$1,331,000 – HK$1,797,000 per unit (2017: HK$1,100,000 – HK$1,485,000 per unit)	The higher the unit price, the higher the fair value
Industrial	112,600	107,900	Direct comparison	Average unit rate – HK$2,671 per square feet (2017: HK$2,563 per square feet) Carpark: HK$485,000 – HK$583,000 per unit (2017: HK$424,000 – HK$508,800 per unit)	The higher the unit price, the higher the fair value
	2,553,230	2,269,120			

15 Investments in joint ventures

	2018 HK$'000	2017 HK$'000
Share of net assets	109,007	109,283

The following is a list of the principal joint ventures indirectly held by the Company as at 31 December 2018:

Name	Place of establishment/ incorporation and kind of legal entity	Principal activities and place of operation	Attributable interest to the Group: Equity interest	Profit sharing	Voting power
Shanghai Sung Nan Textile Co., Ltd (Note a)	People's Republic of China, limited liability company	Property investment in the People's Republic of China	64.68%	64.68%	57%
Southern Textile Company Limited	People's Republic of China, limited liability company	Property investment in the People's Republic of China	45%	45%	43%

Notes:

(a) Since unanimous consent of all the parties sharing control is required for resolution of important strategic decisions including financial and operating, the investment is classified as joint venture even though the Group has a 57% voting interest.

(b) All companies above are private and there is no quoted price available for their shares.

The fair value of investment properties held by joint ventures attributable to the Group amounted to HK$95,394,000 (2017: HK$101,799,000).

There are no commitment and contingent liabilities relating to the Group's investments in its joint ventures.

16 Investment in an associate

	2018 HK$'000	2017 HK$'000
Opening balance 1 January	–	51,772
Share of profit	–	31,504
Share of other comprehensive income	–	14,174
Return of investment/dividend received	–	(97,450)
Closing balance 31 December	–	–

The following is a list of the principal associates indirectly held by the Company as at 31 December 2017:

Name	Place of establishment/ incorporation and kind of legal entity	Principal activities and place of operation	Equity interest
HSL China Metropolitan Fund I L.P. ("HSL") (Notes b and c)	Cayman Islands, limited partnership	Investment holding in the People's Republic of China	16.7%
Ruskin Overseas Limited ("Ruskin")	British Virgin Islands, limited liability company	Investment holding in the People's Republic of China	0%
Kinetic Profit Property (Shanghai) Company Limited ("Kinetic")	People's Republic of China, limited liability company	Property investment in the People's Republic of China	0%

Notes:

(a) All companies above are private and there was no quoted price available for their shares.

(b) The Group held less than 20 per cent of the equity interest of HSL during the year ended 31 December 2017. It accounted for its investment in HSL as an associate as it had the ability to exercise significant influence over the investment due to its representation on key decision-making committees.

(c) Ruskin and Kinetic were disposed of during the year ended 31 December 2017. The Group's capital contribution to HSL were returned in September 2017 and the attributable cumulative reserves of HSL were distributed to the Group in December 2017. HSL was subsequently dissolved on 16 February 2018.

There were no contingent liabilities relating to the Group's investment in its associate.

17 Financial instruments by category

	2018 HK$'000	2017 HK$'000
Assets as per consolidated balance sheet (Note)		
Financial assets at amortised cost		
Trade and other receivables (excluding deposits and prepayments)	2,535	4,226
Pledged bank deposits	13,353	24,989
Cash and cash equivalents	164,620	172,148
Available-for-sale financial assets	–	1,434,081
Financial assets at fair value through other comprehensive income	1,674,111	–
Non-current financial assets at fair value through profit or loss	4,300	–
Financial assets at fair value through profit or loss	294,607	301,057
	2,153,526	1,936,501

	2018 HK$'000	2017 HK$'000
Liabilities as per consolidated balance sheet		
Financial liabilities at amortised cost		
Trade and other payables (excluding provisions)	43,909	44,426
Short-term borrowing	9,042	9,403
	52,951	53,829

Note:

See Note 2.1(c) for details about the impact from changes in accounting policies.

The Group's exposure to various risks associated with the financial instruments is discussed in Note 3. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of financial assets mentioned above.

18 Financial assets at fair value through other comprehensive income (2017: Available-for-sale financial assets)

(a) Classification of financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income comprise equity securities which are not held for trading, and which the Group has irrevocably elected at initial recognition to recognise in this category. These are strategic investments and the Group considers this classification to be more relevant.

	2018 HK$'000	2017 HK$'000 (Note)
Listed equity securities – Hong Kong	5,822	–
Listed equity securities – outside Hong Kong	1,668,289	–
	1,674,111	–

Note:

These investments were classified as available-for-sale in 2017, see (c) below. All of these investments were also held in the previous period.

(b) Investments at fair value through other comprehensive income

On disposal of the equity investments, any related balance within the FVOCI reserve is reclassified to retained earnings. In the prior financial year, the Group had designated these equity investments as available-for-sale where management intended to hold them for the medium to long-term.

Note 2.1(c) explains the change of accounting policy and the reclassification of certain investments from available-for-sale to financial assets at fair value through other comprehensive income following the adoption of HKFRS 9. Note 2.10 sets out the remaining accounting policies.

Movement of financial assets at fair value through other comprehensive income is as follows:

	2018 HK$'000	2017 HK$'000
At 1 January (as restated)	1,429,142	–
Currency translation differences	3,531	–
Net fair value gains/(losses) recognised in equity	241,438	–
At 31 December	1,674,111	–

18 Financial assets at fair value through other comprehensive income (2017: Available-for-sale financial assets) *(cont'd)*

(c) Financial assets previously classified as available-for-sale financial assets (2017)

	2018 HK$'000	2017 HK$'000
At 1 January	–	1,056,750
Additions	–	3,893
Disposals	–	(187)
Currency translation differences	–	8,404
Net fair value gains recognised in equity	–	365,221
At 31 December	–	1,434,081

	2018 HK$'000	2017 HK$'000
Listed equity securities – Hong Kong	–	6,143
Unlisted securities – outside Hong Kong		
– Equity securities	–	1,422,999
– Fund investments	–	4,939
	–	1,427,938
	–	1,434,081

18 Financial assets at fair value through other comprehensive income (2017: Available-for-sale financial assets) *(cont'd)*

(c) **Financial assets previously classified as available-for-sale financial assets (2017)** *(cont'd)*

The financial assets at fair value through other comprehensive income (2017: available-for-sale financial assets) are denominated in the following currencies:

	2018 HK$'000	2017 HK$'000
New Taiwan dollars (Note)	1,668,289	1,422,999
Others	5,822	11,082
	1,674,111	1,434,081

Note:

The financial assets at fair value through other comprehensive income (2017: available-for-sale financial assets) represented the following investment:

Name	Place of incorporation	Principal Activities	Particulars of issued share capital	Group equity interest
The Shanghai Commercial & Savings Bank, Ltd.	Taiwan	Commercial banking business	4,101,603,140 ordinary shares of NT$10 each	4.0%

19 Prepayment, trade and other receivables

	2018 HK$'000	2017 HK$'000
Non-current asset		
Prepayment	9,739	15,407
Current assets		
Trade receivables (Note a)	206	862
Other receivables, prepayments and deposits	7,627	8,421
Amounts due from joint ventures (Note c)	1,519	1,965
	9,352	11,248
Total prepayment, trade and other receivables	19,091	26,655

Notes:

(a) The Group does not grant any credit term to customers. Trade receivables represent rental income receivable from tenants. Rental income is charged in advance to the tenants at the beginning of each month which becomes due upon the issue of invoices. As at the respective balance sheet dates, the trade receivables were all past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. At 31 December 2018, the aging analysis of the trade receivables is as follows:

	2018 HK$'000	2017 HK$'000
Within 30 days	206	862

There is no concentration of credit risk with respect to trade receivables. The Group applied the simplified approach to measure expected credit loss, that is a lifetime expected loss allowance for trade debtors. To measure the expected credit losses, trade debtors have been grouped based on shared credit risk characteristics and the days past due.

(b) The carrying amounts of trade and other receivables approximate their fair values.

(c) The amounts due from joint ventures are unsecured, interest free and repayable on demand.

(d) The trade and other receivables are mainly denominated in Hong Kong dollars.

(e) The maximum exposure to credit risk at the reporting date is the carrying value of the receivable mention above. The Group does not hold any collateral as security.

20 Financial assets at fair value through profit or loss

	2018 HK$'000	2017 HK$'000
Non-current asset		
Unlisted securities		
Debt securities	4,300	–
Current assets		
Listed securities		
Equity securities	111,389	131,348
Debt securities	20,741	39,347
Fund investments	50,173	40,587
	182,303	211,282
Unlisted securities		
Equity securities	9,360	3,065
Debt securities	1,000	1,000
Fund investments	101,944	85,710
	112,304	89,775
	294,607	301,057
	298,907	301,057

The above financial assets at fair value through profit or loss are held for trading purposes. They are presented within the section on operating activities as part of changes in working capital in the consolidated statement of cash flows (Note 27).

See Note 2.1(c) for explanations regarding the change in accounting policy and the reclassification of certain investments from available-for-sale financial assets to financial assets at fair value through profit or loss following the adoption of HKFRS 9, and Note 2.10 for the remaining accounting policies.

In 2017, the Group classified financial assets at fair value through profit or loss if they were acquired principally for the purpose of selling in the short term, i.e. are held for trading. They were presented as current assets if they are expected to be sold within 12 months after the end of the reporting period; otherwise they were presented as non-current assets. The Group did not elect to designate any financial assets at fair value through profit or loss.

The maximum exposure to credit risk at the reporting date is the carrying value of the debt securities classified as financial assets at fair value through profit or loss.

The Group's financial assets at fair value through profit or loss with an aggregate carrying value of HK$118,032,000 (2017: HK$106,724,000) were pledged to the short-term borrowing (Note 25).

20 Financial assets at fair value through profit or loss *(cont'd)*

The financial assets at fair value through profit or loss are denominated in the following currencies:

	2018 HK$'000	2017 HK$'000
Euro	42,174	58,906
Japanese yen	4,196	13,885
Hong Kong dollars	24,330	32,136
United States dollars	209,426	195,503
Others	18,781	627
	298,907	301,057

21 Cash and bank balances

	2018 HK$'000	2017 HK$'000
Cash and cash equivalents	164,620	172,148
Pledged bank deposits (Note a)	13,353	24,989
Cash at bank and on hand	177,973	197,137

Notes:

(a) As at 31 December 2018, bank deposits of HK$13,353,000 (2017: HK$24,989,000) were pledged to secure the short-term borrowing (Note 25).

(b) The carrying amounts of cash and bank balances are mainly denominated in the following currencies:

	2018 HK$'000	2017 HK$'000
Hong Kong dollars	75,469	116,830
United States dollars	102,504	44,174
Renminbi	–	36,133
	177,973	197,137

(c) Maximum exposure to credit risk is HK$177,973,000 (2017: HK$197,137,000).

22 Share capital

	Number of Shares	Amount HK$'000
Ordinary share, issued and fully paid:		
At 1 January 2017	35,226,238	3,523
Shares repurchased and cancelled	(160,000)	(16)
At 31 December 2017 and 1 January 2018	35,066,238	3,507
Shares repurchased and cancelled	(589,500)	(59)
At 31 December 2018	34,476,738	3,448

During the year, the Company repurchased a total of 589,500 (2017: 160,000) of its own shares through purchases on The Stock Exchange of Hong Kong Limited. The repurchased shares were subsequently cancelled. The aggregate price of HK$31,396,000 (2017: HK$7,028,000) paid was charged against retained profits and the nominal value of the shares repurchased of HK$58,950 (2017: HK$16,000) was transferred to the capital redemption reserve.

23 Reserves

	Contributed Surplus HK$'000	Available-for-sale investments reserves HK$'000	Financial assets at FVOCI reserve HK$'000	Property revaluation reserve HK$'000	Capital reserve on consolidation HK$'000	General reserve HK$'000	Statutory and other reserves HK$'000	Translation reserve HK$'000	Capital redemption reserve HK$'000	Retained profits HK$'000	Total HK$'000
Balance as at 1 January 2018 (as restated)	2,459	–	1,076,819	56,175	1,000	76,000	6,747	12,287	1,493	3,017,091	4,250,071
Currency translation differences	–	–	–	–	–	–	–	4,123	–	–	4,123
Share of other comprehensive income of joint ventures	–	–	–	–	–	–	–	(7,184)	–	–	(7,184)
Fair value gains on financial assets as fair value through other comprehensive income	–	–	241,438	–	–	–	–	–	–	–	241,438
2017 final dividend	–	–	–	–	–	–	–	–	–	(24,434)	(24,434)
2017 special dividend	–	–	–	–	–	–	–	–	–	(22,688)	(22,688)
Profit for the year	–	–	–	–	–	–	–	–	–	334,518	334,518
Shares repurchased and cancelled	–	–	–	–	–	–	–	–	59	(31,396)	(31,337)
Transfer to statutory reserves of a joint venture	–	–	–	–	–	–	506	–	–	(506)	–
At 31 December 2018	2,459	–	1,318,257	56,175	1,000	76,000	7,253	9,226	1,552	3,272,585	4,744,507
Balance as at 1 January 2017	2,459	712,176	–	56,175	1,000	76,000	6,747	(18,548)	1,477	2,703,674	3,541,160
Net fair value gains on available-for-sale financial assets	–	365,221	–	–	–	–	–	–	–	–	365,221
Currency translation differences	–	–	–	–	–	–	–	10,139	–	–	10,139
Share of other comprehensive income of joint ventures and an associate	–	–	–	–	–	–	–	20,696	–	–	20,696
2016 final dividend	–	–	–	–	–	–	–	–	–	(21,070)	(21,070)
2016 special dividend	–	–	–	–	–	–	–	–	–	(14,046)	(14,046)
Profit for the year	–	–	–	–	–	–	–	–	–	354,983	354,983
Shares repurchased and cancelled	–	–	–	–	–	–	–	–	16	(7,028)	(7,012)
At 31 December 2017 (as previously reported)	2,459	1,077,397	–	56,175	1,000	76,000	6,747	12,287	1,493	3,016,513	4,250,071
Reclassification on adoption of HKFRS 9	–	(1,077,397)	1,076,819	–	–	–	–	–	–	578	–
At 1 January 2018 (as restated)	2,459	–	1,076,819	56,175	1,000	76,000	6,747	12,287	1,493	3,017,091	4,250,071

Contributed surplus

Pursuant to a group reorganisation in 1989, the Company acquired all the issued shares of Nanyang Cotton Mill Limited ("NCML") in exchange for the Company's new shares issued. The Group's contributed surplus represents the difference between the nominal value of NCML's shares and the nominal value of the Company's shares issued pursuant to the group reorganisation less subsequent distribution. The Company's contributed surplus represents the difference between the nominal value of the Company's shares issued and the consolidated net assets of NCML acquired under the group reorganisation as at the date of acquisition less subsequent distribution.

23 Reserves *(cont'd)*

Available-for-sale investments reserves until 31 December 2017

Changes in the fair value and exchange differences arising on translation of investments that were classified as available-for-sale financial assets (e.g. equities) until 31 December 2017, were recognised in other comprehensive income and accumulated in a separate reserve within equity. Amounts were reclassified to profit or loss when the associated assets are sold or impaired, see accounting policy Note 2.10 for details.

Financial assets at FVOCI reserves

The Group has elected to recognise changes in the fair value of certain investments in equity securities in OCI, as explained in Note 2.10. These changes are accumulated within the FVOCI reserve within equity. The Group transfers amounts from this reserve to retained earnings when the relevant equity securities are derecognised.

Statutory reserves

Statutory reserves are created in accordance with the terms of the joint venture agreements of the joint ventures established in the People's Republic of China and are required to be retained in the financial statements of the entities for specific purposes. The statutory reserves at 31 December 2018 comprise statutory surplus reserve of HK$3,626,500 (2017: HK$3,373,500) and enterprise development reserve of HK$3,626,500 (2017: HK$3,373,500) which are appropriated from the retained profits of the joint ventures.

General reserve

General reserve arose from transfers from retained profits and has no specific purpose.

24 Trade and other payables

	2018 HK$'000	2017 HK$'000
Trade payables (Note a)	3,304	3,656
Rental and management fee deposits	18,973	18,139
Other payables and accruals	28,569	28,917
	50,846	50,712

Notes:

(a) At 31 December 2018, the aging analysis of the trade payables is as follows:

	2018 HK$'000	2017 HK$'000
Within 30 days	3,304	3,110
31 – 60 days	–	546
	3,304	3,656

(b) The carrying amounts of trade and other payables approximate their fair values and are denominated in Hong Kong dollars.

25 Short-term borrowing

	2018 HK$'000	2017 HK$'000
Secured borrowing from a financial institution (Note)	9,042	9,403

Notes:

(a) The borrowing had an effective interest rate of 0.75% per annum at 31 December 2018 (2017: 0.75%).

(b) The carrying amount of the borrowing approximated its fair value due to short-term maturity and is denominated in Euro.

(c) The borrowing was secured by one or more of the following:

(i) pledge of financial assets at fair value through profit and loss (Note 20);

(ii) pledge of bank deposits (Note 21).

26 Deferred income tax

Deferred income tax is calculated in full on temporary differences under the liability method.

	2018 HK$'000	2017 HK$'000
Deferred income tax liabilities		
– to be settled after more than 12 months	(25,213)	(22,960)

The net movement on the deferred income tax account is as follows:

	2018 HK$'000	2017 HK$'000
Balance at 1 January	(22,960)	(21,705)
Tax charged to the consolidated income statement (Note 10)	(2,253)	(1,255)
Balance at 31 December	(25,213)	(22,960)

26 Deferred income tax *(cont'd)*

The movement in deferred tax assets and liabilities, without taking into consideration the offsetting of balances within the same tax authority during the year is as follows:

Deferred income tax liabilities:

	Accelerated tax depreciation HK$'000
At 1 January 2017	(21,986)
Charged to the consolidated income statement	(1,102)
At 31 December 2017 and 1 January 2018	(23,088)
Charged to the consolidated income statement	(2,125)
At 31 December 2018	(25,213)

Deferred income tax assets:

	Tax losses HK$'000
At 1 January 2017	281
Charged to the consolidated income statement	(153)
At 31 December 2017 and 1 January 2018	128
Charged to the consolidated income statement	(128)
At 31 December 2018	–

Deferred income tax assets are recognised for tax losses carried forwards to the extent that the realisation of the related tax benefit through future taxable profit is probable. The Group did not recognise deferred income tax assets of HK$259,000 (2017: HK$226,000) in respect of tax losses amounting to HK$1,567,000 (2017: HK$1,367,000). These tax losses have no expiry date.

27 Notes to the consolidated statement of cash flows

(a) Reconciliation of profit before income tax to net cash generated from operations:

	2018 HK$'000	2017 HK$'000
Profit before income tax	356,602	373,731
Share of profits of joint ventures	(11,140)	(6,089)
Share of profit of an associate	–	(31,504)
Finance income, net	(714)	(39)
Dividend income from financial assets at fair value through other comprehensive income (2017: available-for-sale financial assets)	(75,276)	(70,142)
Net exchange (gains)/losses	(527)	100
Depreciation	127	135
Changes in fair value of investment properties	(276,001)	(178,040)
Loss on disposal of plant and equipment	–	2
Reversal of provision for indemnity	–	(6,215)
Operating (losses)/profit before working capital changes	(6,929)	81,939
Increase in trade and other receivables	(545)	(15,382)
Decrease/(increase) in financial assets at fair value through profit or loss	7,427	(48,455)
Increase in trade and other payables	134	1,203
Net cash generated from operations	87	19,305

(b) Dividends received from a joint venture and financial assets at fair value through other comprehensive income (2017: available-for-sale financial assets):

	2018 HK$'000	2017 HK$'000
Dividends received	79,903	74,551
Withholding tax paid	(16,293)	(13,058)
	63,610	61,493

27 Notes to the consolidated statement of cash flows *(cont'd)*

(c) Liabilities and assets from financing activities

The movement in liabilities and assets from financing activities are as follows:

	Pledged bank deposits HK$'000	Bank loans due within 1 year HK$'000	Short-term borrowing HK$'000	Total HK$'000
Balance as at 1 January 2018	(24,989)	–	9,403	(15,586)
Cash inflow	11,636	–	13,105	24,741
Cash outflow	–	–	(13,130)	(13,130)
Currency translation differences	–	–	(336)	(336)
Balance as at 31 December 2018	(13,353)	–	9,042	(4,311)
Balance as at 1 January 2017	–	–	–	–
Cash inflow	–	36,000	9,303	45,303
Cash outflow	(24,989)	(36,000)	–	(60,989)
Currency translation differences	–	–	100	100
Balance as at 31 December 2017	(24,989)	–	9,403	(15,586)

28 Capital commitments

Capital commitments at the balance sheet date are as follows:

	2018 HK$'000	2017 HK$'000
Contracted but not provided for		
Investment properties	–	2,440

29 Operating leases commitments

At 31 December, the Group had future aggregate minimum lease payments under non-cancellable operating leases for office premises as follows:

	2018 HK$'000	2017 HK$'000
Not later than one year	455	3,642
Later than one year and not later than five years	–	455
	455	4,097

30 Future rental receivables

At 31 December, minimum lease rentals under non-cancellable operating leases of the investment properties not recognised in the financial statements as receivables are as follows:

	2018 HK$'000	2017 HK$'000
Within one year	59,036	55,830
Later than one year but not later than 5 years	45,247	43,703
	104,283	99,533

31 Related party transactions

In addition to the related party information and transactions disclosed elsewhere in the consolidated financial statements, the following is a summary of significant related party transactions entered into in the ordinary course of business between the Group and its related parties during the year.

(a) **Key management compensation**

	2018 HK$'000	2017 HK$'000
Salaries and other short term employee benefits	20,664	20,716
Contributions to retirement scheme	72	72
	20,736	20,788

(b) **Related party balances**

	2018 HK$'000	2017 HK$'000
Amounts due from joint ventures (Note 19)	1,519	1,965

32 Balance sheet and reserve movement of the Company

	As at 31 December 2018 HK$'000	2017 HK$'000
ASSETS		
Non-current assets		
Investments in subsidiaries	378,782	378,782
Current assets		
Trade and other receivables	291	289
Amounts due from subsidiaries	152,803	152,803
Cash and cash equivalents	12,887	5,300
	165,981	158,392
Total assets	544,763	537,174
EQUITY		
Capital and reserves attributable to the Company's equity holders		
Share capital	3,448	3,507
Other reserves (Note)	357,793	357,734
Retained profits (Note)	120,960	116,276
Total equity	482,201	477,517
LIABILITIES		
Current liabilities		
Other payables	2,781	2,611
Amounts due to subsidiaries	59,781	57,046
	62,562	59,657
Total equity and liabilities	544,763	537,174

32 Balance sheet and reserve movement of the Company *(cont'd)*

Note:

Reserve movement of the Company

	Contributed surplus HK$'000	Capital redemption reserve HK$'000	Retained profits HK$'000	Total HK$'000
At 1 January 2018	356,241	1,493	116,276	474,010
Profit for the year	–	–	83,202	83,202
Share repurchased and cancelled	–	59	(31,396)	(31,337)
2017 final dividend (Note 12)	–	–	(24,434)	(24,434)
2017 special dividend (Note 12)	–	–	(22,688)	(22,688)
At 31 December 2018	356,241	1,552	120,960	478,753
At 1 January 2017	356,241	1,477	83,393	441,111
Profit for the year	–	–	75,027	75,027
Share repurchased and cancelled	–	16	(7,028)	(7,012)
2016 final dividend (Note 12)	–	–	(21,070)	(21,070)
2016 special dividend (Note 12)	–	–	(14,046)	(14,046)
At 31 December 2017	356,241	1,493	116,276	474,010

33 Subsidiaries

Details of the subsidiaries as at 31 December 2018 are as follows:

Name	Place of incorporation and kind of legal entity	Place of operation	Principal activities	Particulars of issued share capital	Group equity interest 2018	Group equity interest 2017
Bright Honest Investment Ltd	British Virgin Islands, limited liability company	Hong Kong	Investment holding	50,000 shares of US$1 each	100%	100%
Cottage Investments Co SA	Panama, limited liability company	Hong Kong	Investment holding	100 common shares without par value issued at US$10 each and 100 common shares of US$10 each	100%	100%
+ Culvert Investments Ltd	British Virgin Islands, limited liability company	Hong Kong	Investment holding	100 shares of US$1 each	100%	100%
East Coast Investments Ltd	Hong Kong, limited liability company	Hong Kong	Investment trading	2 ordinary shares	100%	100%
Highriver Estates Ltd	Hong Kong, limited liability company	Hong Kong	Property investment	2 ordinary shares	100%	100%
Infinity Peace Ltd	British Virgin Islands, limited liability company	Hong Kong	Investment holding	100 shares without par value issued at US$1 each	100%	100%
Mepal International Ltd	Hong Kong, limited liability company	Hong Kong	Property investment	3 ordinary shares	100%	100%
Merry Co Inc	Liberia, limited liability company	The People's Republic of China	Property Holding	1 share without par value issued at US$1,000	100%	100%
Nanyang Cotton Mill Ltd	Hong Kong, limited liability company	Hong Kong	Investment holding and property investment	25,000,000 ordinary shares	100%	100%

33 Subsidiaries *(cont'd)*

Name	Place of incorporation and kind of legal entity	Place of operation	Principal activities	Particulars of issued share capital	Group equity interest 2018	Group equity interest 2017
Nanyang Industrial (China) Ltd	Hong Kong, limited liability company	Hong Kong	Investment holding	2 ordinary shares	100%	100%
Nanyangetextile.com Ltd (Deregistered)	Hong Kong, limited liability company	Hong Kong	Inactive	2 ordinary shares	–	100%
Peninsular Inc	Liberia, limited liability company	Hong Kong	Investment holding	1 share without par value issued at HK$10,000	100%	100%
Peninsular Yarn and Fabric Merchandising Ltd	Hong Kong, limited liability company	Hong Kong	Property investment	1,000 ordinary shares	100%	100%
Velden Ltd	British Virgin Islands, limited liability company	Hong Kong	Investment holding and trading	10,000 ordinary shares of US$1 each	100%	100%

\+ Subsidiary held directly by the Company.

Schedule Of Principal Properties

As at 31 December 2018 and 2017

Investment properties

Description	Lot number	Type	Lease term	Group's Interest
Units 2006–2008, 20/F, Fortress Tower, 250 King's Road	IL 8416 Hong Kong	Commercial	Medium term leasehold	100%
Nanyang Plaza 57 Hung To Road (Various units with a total floor area of 289,375 sq ft and all car parks)	KTIL 46	Commercial/ Industrial	Medium term leasehold	100%
Units A–D, 5/F, Block 1, Tai Ping Industrial Centre, 57 Ting Kok Road, Tai Po	DD 11 Lot No.1637	Industrial	Medium term leasehold	100%