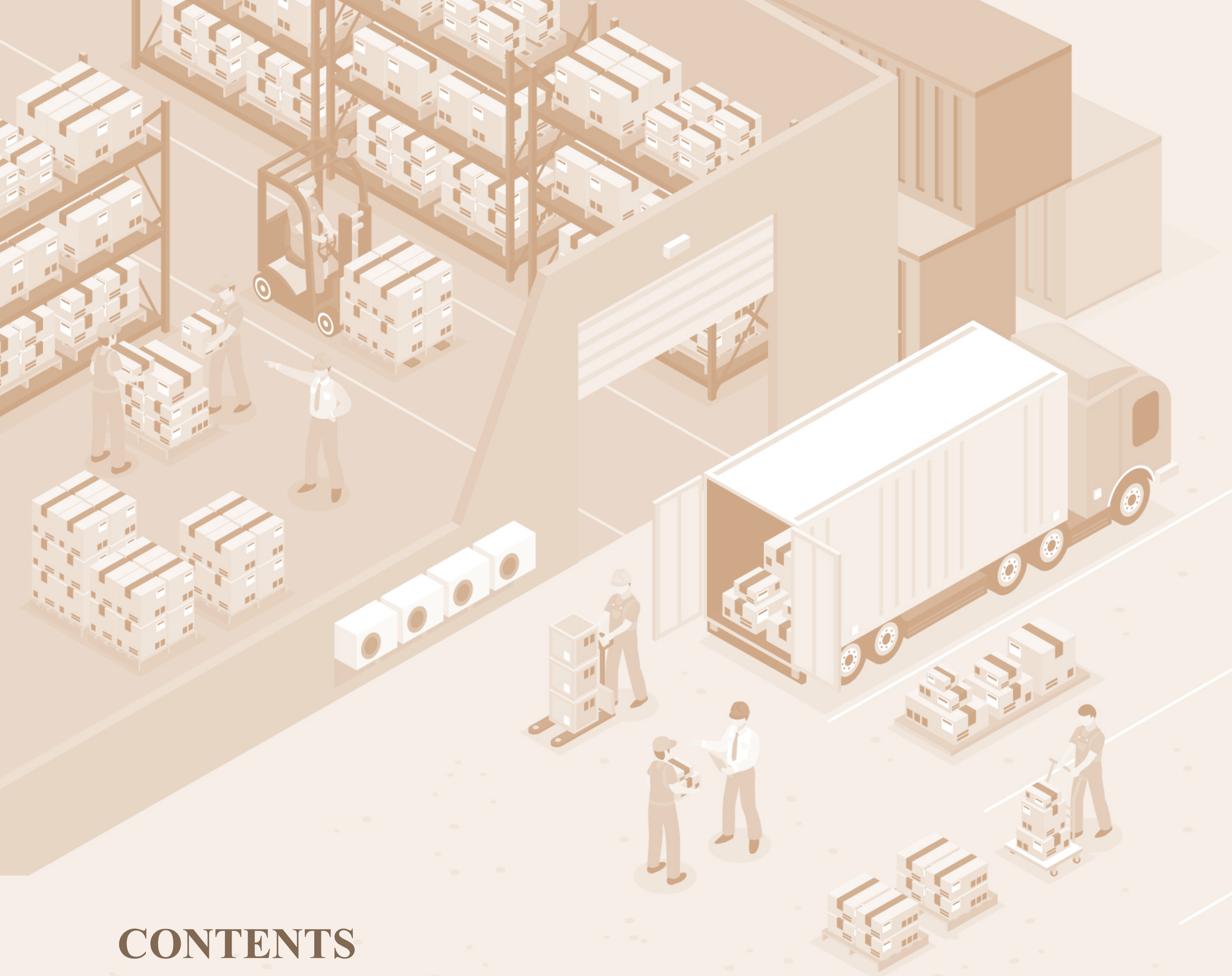
DAIDO

Stock Code 股份代號：00544

Annual Report | 年報
2018

DAIDO
GROUP LIMITED
大同集團有限公司



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# CORPORATE INFORMATION

## BOARD OF DIRECTORS

### Executive Directors

Mr. Au Tat Wai *(Chief Executive Officer)*
Mr. Choy Kai Sing
Mr. Ho Hon Chung, Ivan

### Non-executive Director

Mr. Fung Wa Ko

### Independent Non-executive Directors

Mr. Fung Siu Kit, Ronny
Mr. Leung Chi Hung
Mr. Tse Yuen Ming

## COMMITTEES

### Audit Committee

Mr. Leung Chi Hung *(Chairman)*
Mr. Fung Siu Kit, Ronny
Mr. Tse Yuen Ming

### Nomination Committee

Mr. Tse Yuen Ming *(Chairman)*
Mr. Fung Siu Kit, Ronny
Mr. Leung Chi Hung

### Remuneration Committee

Mr. Fung Siu Kit, Ronny *(Chairman)*
Mr. Leung Chi Hung
Mr. Tse Yuen Ming

## COMPANY SECRETARY

Mr. Choy Kai Sing

## STOCK CODE

00544

## WEBSITE

www.irasia.com/listco/hk/daido/index.htm
www.daidohk.com

## REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Unit No. 1906, 19th Floor
West Tower, Shun Tak Centre
168–200 Connaught Road Central
Hong Kong

## AUDITOR

Deloitte Touche Tohmatsu
*Certified Public Accountants*
35th Floor, One Pacific Place
88 Queensway
Hong Kong

## PRINCIPAL BANKERS

Bank of China (Hong Kong) Limited
Bank of Communications Co., Ltd.
China Construction Bank (Asia) Corporation Limited
The Bank of East Asia, Limited
The Hongkong and Shanghai Banking Corporation Limited
Nanyang Commercial Bank, Limited
Standard Chartered Bank (Hong Kong) Limited

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Union Registrars Limited
Suites 3301–04, 33/F.
Two Chinachem Exchange Square
338 King's Road
North Point
Hong Kong

# CHIEF EXECUTIVE OFFICER'S STATEMENT

On behalf of the Board of Directors/Management, I am pleased to present the annual results of the Group for the financial year ended 31st December, 2018.

The macroeconomic environment of Hong Kong in 2018 was less than favourable, especially towards the year end. Amid the US-China trade dispute and deceleration on the mainland, the local economy expanded only 3%, representing the slowest growth in two years. Consumption was also affected, with a retail growth of 2.1% at the end of 2018, compared to the double-digit growth recorded a year ago. Such a confluence of factors did not augur well for business in general.

Against an increasingly tough backdrop, the Group ran into a number of challenges in operating its core business in cold storage and warehousing, including the physical aging and deterioration of a cold storage facility in Kwai Chung, along with the higher maintenance and operation costs. Riding on our extensive experience and knowledge in cold-storage management, we took a proactive approach to pursuing new business opportunities. This led us to enter into a joint venture agreement in September last year to develop a new cold storage business.

The Group has been decisive in making this core segment a success. On the one hand, it terminated the operation of the non-performing industrial ice bars (for construction) business. On the other, it slowed the development of another secondary segment, that of money lending. These measures were calculated to free up resources for the further development of its core cold storage business.

However, we still see much potential in our trading operations in mainland China, where we distribute a growing array of fresh produce, snacks and beverage products through a network of convenience outlets, malls and department stores. At the same time, we have been reviewing our business strategy continuously, with a view of enhancing our product variety and trading flexibility in order to generate a larger profit margin.

As the business climate is likely to be volatile and fraught with risks in 2019, the Group has put in place a responsive risk management plan to adapt to evolving risks of the macroeconomy, the prevailing competition and the marketplace. We will continue to strictly manage our operational and business risks on all fronts. We will also strive to improve our corporate governance to ensure sustainability of our business, the environment and communities in which we operate.

In closing, I wish to convey heartfelt thanks to all our customers and shareholders for backing us every step of the way, with trust and support. I am also grateful to our employees for their hard work and dedication over the past years.

# MANAGEMENT DISCUSSION AND ANALYSIS

## OVERALL RESULTS

For the financial year ended 31st December, 2018, the Group's total revenue amounted to approximately HK$309 million as compared to approximately HK$275 million from the preceding year.

During the period of review, the Group recorded a loss of approximately HK$38 million, compared to the loss of approximately HK$35 million recorded in the year ended 31st December, 2017, equivalent to an increase of about 8.57%.

The Board attributed the loss primarily to the operating loss of its cold storage business and PRC trading business, the share of loss from a new startup joint venture and the change in fair value of derivative financial instruments during the year.

In the same period, the Group saw gradual improvements of its cold storage business and adopted measures to further its development. A decision was taken to close the operation of its industrial ice bar business given its longstanding underperformance. Our trading operations in the PRC also fell short of business targets to the detriment of the Group's overall revenue.

## FINANCIAL KEY PERFORMANCE INDICATORS

| | | As at 31 December | |
|---|---|---|---|
| | | **2018** | 2017 |
| Loss per share – basic | HK cents | **(1.56)** | (1.45) |
| Net assets per share attributable to owners of the Company | HK$ | **12.06** | 13.77 |
| Current ratio | times | **1.69** | 3.17 |
| Total liabilities to total assets ratio | times | **0.53** | 0.42 |
| Gearing Ratio | % | **55.1%** | 45.7% |
| Return on equity ratio | % | **–20.9%** | –16.1% |
| Return on assets | % | **–9.5%** | –8.4% |
| Assets turnover ratio | times | **0.77** | 0.65 |

## REVIEW OF OPERATING SEGMENTS

The Group is principally engaged in cold storage and related business in Hong Kong; trading of food and beverage business in the PRC; provision of money lending services in Hong Kong and investment holding.

Announced on 6th September, 2018, a substantial transaction was undertaken with a subsidiary of the Group, entering into a joint venture ("JV") Agreement and Management Service Agreement, to operate and manage a warehouse in Tsing Yi district (the "JV transaction"). The Group owns 30% of the JV.

A supplemental Agreement announced on 29th October, 2018 stated that each shareholder of the JV company is obliged to take up the contribution of the total investment amount in proportion to the shareholding held by the parties, in case of the arrangement of the bank borrowings have not been satisfied.

## Cold storage and related business

***Cold storage***

The Group operated two cold storage facilities, one located at Kwai Hei Street, Kwai Chung, and the other at Wing Yip Street, Kwai Chung. Compared to the preceding financial year, the performance of this segment gradually improved due to turnover increase and higher rental fees charged to customers in 2018. This was especially true for the warehouse at Wing Yip Street, whose stock turnover rate improved owing to the extended inventory varieties. Some of the Group's existing clients started to use both of its cold warehousing facilities. However, the physical conditions of aging in these structures, coupled with its limited storage capacity, caused the Group's inability to cope with growing customer needs. This explains why the performance of this segment lags behind the higher level it achieved in 2016.

Addressing this situation, the Group signed a binding offer letter with one of the landlords on 28th September, 2018, in relation to the lease renewal for its existing cold-storage facility at Kwai Hei Street. Following negotiations with the landlord, the lease tenure of this facility would be officially extended over an eight-year period, from 15th February, 2019 to 14th February, 2027.

In addition, the Group entered into a JV agreement in September 2018 to develop a cold-storage business in Tsing Yi district, reflecting a recalibrated business strategy for its core business. The JV Company will allow the Group to harness its management experience in developing its cold storage business without substantial capital expenditure. In addition, the Group is expected to generate a stable revenue stream from the investment returns and management fees receivable.

***Logistics***

The Group's logistics arm was formed to serve the customers of its cold storage segment. Therefore, it is highly dependent on the latter for its business performance. Presently, there are two divisions operating under the Group's logistics unit — Logistics-Cargo Department and Development Department.

While the Logistics-Cargo Department facilitates inventory transfer from port to warehouse, the Logistic Development Department undertakes merchandise delivery from warehouse to the various districts of Hong Kong. Both these functions serve the logistics needs of the Group's warehousing clients.

However, the profit margin generated by the logistics development operation has been unsatisfactory, due to the high operation cost incurred because of the scattered delivery locations all over Hong Kong.

In view of this, the Group has entered into a cooperation agreement with a logistics company, subcontracting merchandise delivery to the latter so as to improve the operational efficiency and profit margin of its logistics business.

***Industrial ice bars (for construction use)***

This segment contributed only 1 to 2% to the Group's overall revenues, but the amount of efforts and resources allocated to sustain its operation are disproportionately high. During the manufacturing process of industrial ice bars, high levels of humidity are generated inside the factories, triggering greater repair and maintenance cost of the production facilities involved. The low returns and higher costs, exacerbated by intense competition from other ice bar suppliers, prompted the Group's decision to end the operation of this business segment between September and October of 2018. By doing so, more attention and resources could be devoted to developing its more lucrative cold storage business.

### Trading of food and beverage business

The Group's trading of food and beverage business on the mainland recorded increasing revenues in 2018, thanks to the broader variety of products distributed, but it still fell short of its business target.

The perishable nature of the food and beverage products distributed to a network of supermarkets and convenience stores, such as fresh milk from Australia and New Zealand, presented a challenge to this segment. During the transportation process, higher operation costs are incurred to maintain food safety standards required under state and industry regulations. Income generated from the segment also turned out to be inadequate to cover the bottom-line and rising inflation. The full earning potential of this segment remains unrealised, partly due to the effectiveness of control of return goods.

In face of the challenges, the Group has been reviewing its fundamental strategy constantly with the aim to improve the segment's profit margin and business growth.

### Money lending business

Apart from extending credit facilities to its existing cold storage customers, the Group has been looking into ways to broaden the base to include new corporate clients. Although revenues from this segment were stable and profitable, the Group took the decision to slow its development and free up resources to expand the core business of cold warehousing.

The money lending business will therefore not be a key focus in the Group's future portfolio.

## PRINCIPAL RISKS AND UNCERTAINTIES

The business portfolio held by the Group has been diversified to spread out the various operational and business risks evenly. That said, efforts have also been taken to ensure a delicate balance between diversity and profitability. The Group has and will continue to drop persistently unprofitable segments as part of its commitment to build a stronger and sustainable business mix.

Changes in the macroeconomic environment and market demand for the Group's products and services could impact its operational and business performance, hence affecting its operating income. Another significant risk facing the Group in the past years was cold storage facility depreciation, with a possibility of its storage capacity and business growth being undermined.

The Group's cold warehousing segment is also vulnerable to economic headwinds, which might dampen market demand for imported foodstuff and other perishable items, including meat, fruits, vegetables and pharmaceuticals, to potentially affect the business performance of its cold-storage facilities. Considerable demand for cold warehousing is dependent on Hong Kong's role as an entrepôt and intermediary trade centre, which will in turn affect the demand of distributors for storage of temperature-sensitive merchandise.

Uncertainties of the lease agreements related to the Group's warehousing facilities are a potential risk too. The Group's warehousing leases were expired in February 2019. This placed immense pressure on its management team to seek renewal of such leases or source other warehousing options. As the Group's logistics segment shares a largely similar customer base with the warehousing segment, its performance could be dampened by falling demand for cold warehousing.

# MANAGEMENT DISCUSSION AND ANALYSIS

A number of proposals were formulated internally and submitted to the Group's senior management for review and approval in 2018. Critical policy decisions were made to circumvent the primary risks and uncertainties facing its operations, including:

1. Investment in a new cold-storage facility at Tsing Yi district on a joint-venture basis, instead of renewing its existing lease at Wing Yip street, Kwai Chung, due to a lack of consensus on the rent review;

2. Lease renewal for its existing cold-storage facility at Kwai Hei Street, Kwai Chung, with better terms and conditions successfully secured;

3. Termination of its non-performing industrial ice bars business, not only to cut losses but also free up resources to develop its more promising core segment in cold warehousing further.

With the first two decisions made, the Group has eliminated the leasing uncertainties to lay firmer ground for the continual growth of its warehousing core business. The third decision was made out of consideration for business sustainability, which is deemed to be equally important as the Group's portfolio diversity.

## PROSPECTS

Looking ahead, the world economy appears likely to be rocked by the US-China trade disputes, United Kingdom's withdrawal from the European Union, China's slowing economy and other undercurrents. Given the cloudy global outlook, Hong Kong's open and trade-reliant economy is projected to grow 2 to 3% in 2019, as market sentiments have turned increasingly cautious. Should the external headwinds deteriorate, especially if the US-China trade conflict escalates, then global trade, investment and financial markets will be subject to greater shocks.

Faced with the bleak economic prospects, the Group will review and refine its business strategy regularly and continuously, while being ready to realign its business operation decisively and swiftly. In the year ahead, the Group will focus its resources on the new cold storage business established through a joint venture. Committing attention and investments to storage infrastructure development will sharpen its market edge in the long run.

### Cold storage and related services

The Group's decision not to renew the lease of its storage facility on Wing Yip Street, Kwai Chung, helps avert the high costs of retrofitting and maintaining the old, run-down warehouse. In this connection, the Group has invested heftily in a JV project, under which a large, two-storey cold-storage centre of 320,000 square feet located in Tsing Yi, started commencing operation in March 2019.

This JV project is operated by a wholly owned subsidiary of the Group. Responsible for the daily management of the JV's cold-storage facility, the Group expects a significant yield combining investment returns and management fees receivable from this undertaking.

The cold-storage project in Tsing Yi represents a starting point in the JV collaboration, following which a similar business model will be extended to the PRC market.

### Trading of food and beverage business

The Group's trading of food and beverage business in the PRC is focused on perishable products such as fresh produce and milk beverages targeting the fast-rising domestic consumer market. But the need to maintain high standards of food safety stipulated under state and industry regulations, especially in the transportation of these products to the retail outlets, have greatly increased the Group's operation costs. This has presented it with a heavy financial burden that stands in the way of business expansion and development.

The Group will continue to refine the segment's product mix while seeking opportunities to minimise operation cost and maximise the profit margin.

### Money lending business

Development of the Group's money-lending business will be slowed to free resources and used to develop the new JV project in cold-warehousing. However, the Group will continue to maintain good operation practices to ensure sustainable interest returns from its existing base of borrowing clients.

## CORPORATE STRATEGY AND LONG-TERM BUSINESS MODEL

The Group has developed its cold storage and logistics businesses into principal growth drivers. Under its corporate strategy, a strong focus is placed on diversifying and enriching its portfolio of operations, which currently includes money lending and trading of food and beverage business in the PRC as supplementary segments for business sustainability.

Leveraging on its existing portfolio strengths, the Group will continue to identify new business opportunities in Hong Kong and mainland China. Concurrently, it will ride on its expertise and knowledge in cold storage and logistics management to expand business involvement in both these areas. To realise this vision, we will continually strive for a higher level of operational excellence, a better retention rate among quality customers and higher business turnover. As before, the Group will offer a one-stop range of cold storage solutions and other warehousing facilities, supported by logistics services that will include transportation, distribution, container hauling and devanning.

Ensuring a sustainable growth will remain the thrust of the Group's business strategy. While aiming to increase the profit margins of our core business, we are also dedicated to strengthening our secondary supplements, such as food trading and distribution on the mainland through a range of market development strategies and expansion of our product mix to reach a broader base of Chinese consumers. Maintaining the stable operation of our money lending segment also reflects our endeavours to achieve business sustainability.

As an established leader in Hong Kong's cold warehousing market, we are guided by our corporate strategy and long-term business model, to improve the financial and operational values of all our business segments and spearhead their expansion into Mainland China. We would like to convey our gratitude to our shareholders for their firm support, with a commitment to optimise their returns from investing in our Group.

## EMPLOYMENT AND REMUNERATION POLICY

As at 31st December, 2018, the total number of full time employees of the Group in Hong Kong and the PRC were approximately 230 and 80 respectively (2017: approximately 240 Hong Kong employees; 70 PRC employees). Remuneration is reviewed annually and in addition to the basic salaries, the Group also provides staff benefits including discretionary bonuses, Mandatory Provident Fund, staff quarter, lunch box/lunch subsidy and professional tuition/training subsidy for employees' benefit.

# MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL REVIEW

### Liquidity and financial resources

As at 31st December, 2018, the Group had cash and bank balances of approximately HK$55.9 million (2017: approximately HK$94.8 million), which was denominated in Hong Kong dollars ("HK$") and Renminbi ("RMB") as to 94.3% and 5.7%, respectively. The decrease was mainly due to increase in loan receivables, cash used in increase in pledged bank deposits and the net cash used in operating activities.

The gearing ratio, measured as non-current borrowings over equity attributable to owners of the Company was approximately 55.1%* as at 31st December, 2018 (2017: approximately 45.7%). The increase of the gearing ratio was because of the drop of the equity attributable to owners of the Company.

In 2014, the Group announced for the placement of bonds in an aggregated principal amount of up to HK$500 million within the placing period commencing from 13th November, 2014 and ending on 12th November, 2015. The net proceeds from the issue of the bonds will be utilised as the general working capital of the Group. For further details, please refer to the announcements of the Company dated 13th November, 2014, 26th January and 23rd April, 2015. As at 31st December, 2018, it is noted that the bonds in an aggregate principal amount of HK$100 million have been subscribed by the placees and issued by the Company, which is the same as those as at 31st December, 2017.

As at 31st December, 2018, the Group had a bank loan of HK$65 million (2017: Nil) denominated in HK$. The Group's bank borrowing interest rate is at 7% per annum and the maturity of borrowing is up to April 2020. The banking facility was fully utilised (2017: Nil).

During the year under review, the Group's capital expenditure was mainly financed by finance leases, internal resources and bank borrowing.

### Treasury policies

The Group adopts conservative treasury policies and has tight controls over its cash management. The Group's cash and bank balances are held mainly in HK$.

### Exposure to fluctuations in exchange rates and related hedges

Monetary assets and liabilities of the Group are principally denominated in HK$. The directors consider the Group's exposure to exchange rate risks to be low. The Group may have relatively high exposure to exchange rate risk when more trading business to be operated in the PRC. The directors will review the exchange rate risks faced by the Group periodically.

During the year, the Group did not have any material foreign exchange exposure and had not used any financial instruments for hedging purpose.

### Share capital structure

As at 31st December, 2018, the total issued share capital of the Company was HK$24,323,040 divided into 2,432,304,000 ordinary shares with a par value of HK$0.01 each, which is the same as those as at 31st December, 2017.

### Material acquisitions and disposals of subsidiaries, associates and joint ventures

During the year under review, the Group did not have any material acquisitions or disposals of subsidiaries, associates or joint ventures save for the JV transaction (2017: Nil).

* Excluded derivative financial instruments

### Charges on assets

As at 31st December, 2018, banking facilities, for providing guarantees by a bank for the Group's operation of cold storage service, to the extent of HK$3.5 million (2017: HK$3.5 million) of the Group were secured by bank deposits amounting to HK$3.5 million (2017: HK$3.5 million). The amount utilised at 31st December, 2018 was approximately HK$3.5 million (2017: approximately HK$3.5 million).

As at 31st December, 2018, bank deposits of approximately HK$101.9 million (2017: approximately HK$99.5 million) were pledged to a bank, which provides bank guarantee in favour of two landlords for a sum equivalent to 12 months' rent payable by the Group under tenancy agreements. The increase of the bank deposits was because of the top-up bank guarantee under the offer for renewal of lease.

In addition, the Group's obligations under finance leases were secured by the lessors' charge over the leased assets with carrying value of approximately HK$0.6 million (2017: approximately HK$2.1 million).

### Future plans for material investments or capital assets

During the year under review, the Group did not have any concrete future plans for material investments or capital assets save for the JV transaction (2017: Nil).

### Contingent liabilities

During the year under review, the Group did not have any contingent liabilities (2017: Nil).

# DIRECTORS OF THE COMPANY

**MR. AU TAT WAI,** aged 46, has been an Executive Director and the Chief Executive Officer of the Company, since September 2009. He has also served as an authorised representative of the Company and a director of certain subsidiaries of the Company. Mr. Au has over 8 years of experience in information technology and e-commerce businesses, as well as in resort sector project development. He has, among ongoing efforts, promoted long term Chinese interests abroad — acting as a key liaison, bringing together in partnership Western and Chinese interests. Mr. Au graduated from Lakehead University, Ontario, Canada with a Bachelor of Business Administration and subsequently received his Master of Business Administration from The Hong Kong University of Science and Technology.

**MR. CHOY KAI SING,** aged 55, joined the Group in June 1998. Mr. Choy is currently the Chief Financial Officer and the Company Secretary of the Company and has also served as a director of certain subsidiaries of the Company. He was appointed as an Executive Director and an authorised representative of the Company in August 2009 and September 2009 respectively. He is responsible for the finance and accounting affairs of the Group. Mr. Choy is a fellow member of Association of Chartered Certified Accountants, Hong Kong Institute of Certified Public Accountants and Institute of Chartered Accountants in England and Wales. He is a Certified Public Accountant and has over 20 years working experience in auditing, accounting and investment banking.

**MR. HO HON CHUNG, IVAN,** aged 64, was appointed as an Executive Director of the Company in November 2009 and has also served as a director of certain subsidiaries of the Company. Mr. Ho has been in the travel industry and consultancy services for over 20 years, principally in the senior managerial position.

**MR. FUNG WA KO,** aged 57, is currently a Non-executive Director of the Company. Mr. Fung joined the Group as an Executive Director and the Chief Executive Officer of the Company in October 2003. He was appointed as the Deputy Chairman of the Company in April 2004 and has become the Chairman and an authorised representative of the Company in August 2006. In September 2009, Mr. Fung was re-designated from an Executive Director to a Non-executive Director and resigned as the Chief Executive Officer and an authorised representative. He resigned as the Chairman of the Company in October 2011. Mr. Fung has over 20 years of experience in the area of business development, corporate management and budget control. He received his education in the United Kingdom and has worked in various management positions in Hong Kong, Mainland China, and other countries in Asia Pacific Regions.

**MR. FUNG SIU KIT, RONNY,** aged 75, joined the Group as an Independent Non-executive Director of the Company in August 2009. He is also the chairman of remuneration committee and the member of audit committee and nomination committee of the Company respectively. Mr. Fung has worked for a local bank for 20 years and has over 30 years of experience in banking, finance, investment and securities. Currently, he is a director of Goldfield Asia Investment Limited, a company provides gold/silver trading in Hong Kong.

**MR. LEUNG CHI HUNG,** aged 63, joined the Group as an Independent Non-executive Director of the Company in September 2003. He is also the chairman of audit committee and the member of nomination committee and remuneration committee of the Company respectively. Mr. Leung has commenced his accountancy professional training since 1976 and is now members of international accountancy bodies. He is a certified public accountant (Practising) in Hong Kong and a director of Philip Leung & Co. Limited. Mr. Leung is also an independent non-executive director of eForce Holdings Limited, Finet Group Limited, REF Holdings Limited and WT Group Holdings Limited, those companies are listed on The Stock Exchange of Hong Kong Limited.

**MR. TSE YUEN MING,** aged 51, joined the Group as an Independent Non-executive Director of the Company in August 2003. He is also the chairman of nomination committee and the member of audit committee and remuneration committee of the Company respectively. Mr. Tse is a partner of Messrs. Tung, Ng, Tse & Heung. He holds a bachelor of laws degree with honour from the University of Hong Kong and admitted to The Supreme Court of Hong Kong as a solicitor in 1993. Mr. Tse is also an independent non-executive director of Inno-Tech Holdings Limited, which is listed on The Stock Exchange of Hong Kong Limited. Mr. Tse is also the Vice President of The Hong Kong Chamber of Small and Medium Business and the Legal Adviser of Life Underwriters & Sales Executives Board (HK) Ltd.

# DIRECTORS' REPORT

The directors present their annual report and the audited consolidated financial statements of the Company and its subsidiaries (collectively referred to as the "Group") for the year ended 31st December, 2018.

## PRINCIPAL ACTIVITIES

The Company acts as an investment holding company. The activities of its principal subsidiaries are set out in note 42 to the consolidated financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

## BUSINESS REVIEW

A review of the Group's business and an indication of likely future developments in the Group's business as required by Schedule 5 to the Hong Kong Companies Ordinance as well as the important events affecting the Group has occurred since the end of the financial year under review are set out in the CEO's Statement and the Management Discussion and Analysis of this Annual Report. In addition, description of the principal risks and uncertainties facing the Group are provided in the Management Discussion and Analysis and notes 4, 37 and 38 to the consolidated financial statements in this Annual Report. The review and description form part of the Director's Report.

An analysis of the Group's performance during the year using financial key performance indicators is provided in the Management Discussion and Analysis on page 4 which forms part of the Directors' Report but not part of the audited financial statements.

During the year, as far as the Group is aware, there was no material breach of or non-compliance with applicable laws and regulations by the Group that has a significant impact on the business and operations of the Group.

Detailed discussions on the Group's environmental policies and the relationships with its key stakeholders are set out in the Environmental, Social and Governance Report of this Annual Report. The discussions form part of the Directors' Report.

## RESULTS

The results of the Group for the year ended 31st December, 2018 are set out in the consolidated statement of profit or loss and other comprehensive income on page 58.

## RESERVES

Movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 61.

## PROPERTY, PLANT AND EQUIPMENT

Details of movements during the year in the property, plant and equipment of the Group are set out in note 14 to the consolidated financial statements.

## SHARE CAPITAL

Details of movements during the year in the share capital of the Company are set out in note 28 to the consolidated financial statements.

## PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

# DIRECTORS' REPORT

## DISTRIBUTABLE RESERVES OF THE COMPANY

As at 31st December, 2018, the Company's reserves consisted of contributed surplus of HK$84,239,000 (2017: HK$84,239,000) and accumulated losses of HK$422,767,000 (2017: HK$414,627,000).

The contributed surplus of the Company represents the difference between the underlying net assets of the subsidiaries acquired by the Company as at the date of the group reorganisation and the nominal amount of the Company's share capital issued as consideration for the acquisition.

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

(i) it is, or would after the payment be, unable to pay its liabilities as they become due; or

(ii) the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium account.

## DIRECTORS

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

### Executive Directors

Mr. Au Tat Wai *(Chief Executive Officer)*
Mr. Choy Kai Sing
Mr. Ho Hon Chung, Ivan

### Non-executive Director

Mr. Fung Wa Ko

### Independent Non-executive Directors

Mr. Fung Siu Kit, Ronny
Mr. Leung Chi Hung
Mr. Tse Yuen Ming

In accordance with Bye-Law 87 of the Company's Bye-Laws, Mr. Ho Hon Chung, Ivan, Mr. Fung Wa Ko, Mr. Leung Chi Hung and Mr. Tse Yuen Ming retire by rotation and being eligible, offer themselves for re-election at the forthcoming annual general meeting.

The Company entered into letters of appointment with all directors for a period of 3 years from the date of their appointment or re-election by Shareholders, whichever is the later. Such term shall end in any event on either: (i) terminated by either party given the other not less than 3 months' notice; or (ii) the date on which the Director shall retire by rotation as required by the Bye-Laws of the Company, whichever is the earlier.

None of the Directors proposed for re-election at the forthcoming annual general meeting has a service contract which is not determinable by the Group within 1 year without payment of compensation (other than statutory compensation).

# DIRECTORS' REPORT

## DISCLOSURE OF CHANGES IN DIRECTORS' INFORMATION

Updated biographical details of Directors are set out on page 11, as well as the changes in their emoluments as set out in note 11 to the consolidated financial statements, of this annual report.

Changes in Director's information under Rules 13.51B (1) of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") are as follows:

— Mr. Tse Yuen Ming, an Independent Non-executive Director of the Company, resigned as an independent non-executive director of Celebrate International Holdings Limited (a company listed on the Stock Exchange) with effect from 31st August, 2018.

Save as disclosed above, there is no other changes in the Directors' information required to be disclosed pursuant to Rule 13.51B (1) of the Listing Rules.

## INTERESTS OF DIRECTORS

As at 31st December, 2018, none of the Company's directors or chief executives of the Company nor their respective associates had any interests or short positions in any shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provision of the SFO), or which were required to be entered in the register kept by the Company pursuant to Section 352 of the SFO; or which were otherwise required to be notified to the Company and the Stock Exchange pursuant to Model Code for Securities Transactions by Directors of Listed Issuers contained in the Listing Rules.

## SHARE OPTION SCHEME

The Company had a share option scheme which was adopted on 9th January, 2006 (the "2006 Scheme"). At the annual general meeting of the Company held on 29th May, 2015, the shareholders of the Company approved the termination of the 2006 Scheme and the adoption of a new share option scheme (the "2015 Scheme"). The 2015 Scheme is subsequently adopted on 2nd June, 2015 (the "Adoption Date"). There is no material difference between the terms of the 2006 Scheme and the 2015 Scheme.

Particulars of the share option scheme of the Company are set out in note 31 to the consolidated financial statements.

Since the Adoption Date and up to 31st December, 2018, no share options have been granted pursuant to the 2015 Scheme.

# DIRECTORS' REPORT

## INTERESTS OF SUBSTANTIAL SHAREHOLDERS

At 31st December, 2018, to the best knowledge of the Company's directors or chief executives of the Company, the following parties (other than the Company's directors or chief executives of the Company), had interests or short positions in the shares or underlying shares of the Company which were required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO are as follows:

Long positions of the substantial shareholders in the shares of the Company:

| Name of shareholder | Capacity | No. of shares held | Approximate percentage of total issued share capital |
|---|---|---|---|
| Ever Achieve Enterprises Limited (Note 1) | Beneficial owner | 202,323,133 | 8.32% |
| Yuen Kin Wing (Note 1) | Interest of controlled corporation | 202,323,133 | 8.32% |
| Bingo Chance Limited (Note 2) | Beneficial owner | 140,000,000 | 5.76% |
| Elite Plan Investments Limited (Note 2) | Interest of controlled corporation | 140,000,000 | 5.76% |
| Wulglar Wai Wan (Note 2) | Interest of controlled corporation | 140,000,000 | 5.76% |

Notes:

1. The entire issued share capital of Ever Achieve Enterprises Limited is beneficially owned as to 50% by Mr. Yuen Kin Wing, as to 25% by Mr. Chung Chiu Pui and as to 25% by Ms. Foo Hang Luen, Monita.

2. Ms. Wulglar Wai Wan is an elder sister of Mr. Ho Hon Chung, Ivan, whom is an Executive Director of the Company. She is the sole ultimate beneficial owner of Elite Plan Investments Limited ("Elite") and Bingo Chance Limited, a wholly-owned subsidiary of Elite. She is deemed to be interested in 140,000,000 shares which are held by Bingo Chance Limited under the SFO.

Save as disclosed above, as at 31st December, 2018, the Company's directors or chief executives of the Company are not aware of any other person (other than the Company's director or chief executive of the Company), who had interests or short positions in the shares or underlying shares of the Company which were required to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO.

## DIRECTORS' INTERESTS IN TRANSACTION, ARRANGEMENT OR CONTRACT OF SIGNIFICANCE

No other transaction, arrangement or contract of significance to which the Company or any of 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.

## EQUITY-LINKED AGREEMENTS

Save as disclosed in the sections headed "Share Option Scheme", no equity-linked agreements were entered into during the year or subsisted at the end of the year.

# DIRECTORS' REPORT

## ARRANGEMENTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the sections headed "Share Option Scheme", at no time during the year ended 31st December, 2018 was the Company or any of its subsidiaries, fellow subsidiaries or its parent company a party to any arrangements to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and neither the Directors nor any of their spouses or children under the age of 18, had any rights to subscribe for the securities of the Company, or had exercised any such rights.

## MANAGEMENT CONTRACTS

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

## MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31st December, 2018, the aggregate amount of turnover attributable to the Group's five largest customers accounted for approximately 45% of the Group's total turnover and the turnover attributable to the Group's largest customer accounted for approximately 11% of the Group's total turnover.

For the year ended 31st December, 2018, the aggregate amount of purchases attributable to the Group's five largest suppliers accounted for approximately 57% of the Group's total purchases and the purchase attributable to the Group's largest supplier accounted for approximately 22% of the Group's total purchases.

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

## EMOLUMENT POLICY

The emolument policy of the employees of the Group is set up by the management on the basis of their merit, qualifications and competence.

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

## PRE-EMPTIVE RIGHTS

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

## PERMITTED INDEMNITY PROVISION

Pursuant to the Company's Bye-laws, every director shall be entitled to be indemnified out of the assets and profits of the Company against all losses or liabilities which he may sustain or incur in or about the execution of the duties of his office or otherwise in relation thereto.

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

# DIRECTORS' REPORT

## CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the "Corporate Governance Report" on pages 18 to 35.

## SUFFICIENCY OF PUBLIC FLOAT

The Company has maintained a sufficient public float throughout the year ended 31st December, 2018.

## CONFIRMATION OF INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

## AUDITOR

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

On behalf of the Board

**AU TAT WAI**
*Executive Director*

Hong Kong
29th March, 2019

# CORPORATE GOVERNANCE REPORT

## CORPORATE GOVERNANCE PRACTICES

The Board believes that corporate governance is essential to the success of the Company and will bring long-term benefits to the Shareholders. For this reason, the Company is always committed to upholding high standards of corporate governance and has adopted a set of sound governance principles, practices and procedures, to systematically review the work procedures in different departments. Risk Management Policy has been established to formalise the risk management of the Group, to build up a standard and effective risk management system, improve the ability of risk prevention, so as to ensure the Group is operating in a safety and steady environment, the operation management level could be increased and the Group's operational strategy and target could be achieved. The current practices will be reviewed and updated regularly to follow the latest practices in corporate governance.

The Company has adopted the principles and the code provisions set out in the Corporate Governance Code and Corporate Governance Report in Appendix 14 (the "CG Code") to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and complied with all the code provisions as set out in the CG Code, except the deviations in paragraph headed "Chairman and Chief Executive".

Following sustained development of the Company, the Board and senior management will continue to monitor the corporate governance practices of the Company to ensure that daily business activities and decision-making processes are regulated in a proper and prudent manner.

## CORPORATE GOVERNANCE STRUCTURE

The Board is charged with the duty to put in place a proper corporate governance structure of the Company. It is primarily responsible for the leadership and control of the Company and oversees the Group's businesses, strategic decisions and performances. Under the Board, there are currently 3 sub-committees, namely audit committee, nomination committee and remuneration committee. All these committees perform their distinct roles in accordance with their respective terms of reference and assist the Board in supervising certain functions of the senior management.

## BOARD OF DIRECTORS

### Board Composition

The Board members for the year ended 31st December, 2018 and up to the date of this annual report are:

#### Executive Directors

Mr. Au Tat Wai *(Chief Executive Officer)*
Mr. Choy Kai Sing
Mr. Ho Hon Chung, Ivan

#### Non-executive Director

Mr. Fung Wa Ko

#### Independent Non-executive Directors

Mr. Fung Siu Kit, Ronny
Mr. Leung Chi Hung
Mr. Tse Yuen Ming

The biographical details of all Directors and the relationships among them are set out in the "Directors of the Company" on page 11 of this annual report.

To the best knowledge of the Company, there is no financial, business, family or other material/relevant relationship between the Directors.

## BOARD OF DIRECTORS (continued)

### Independent Non-executive Directors

Pursuant to Rules 3.10(1), 3.10(2) and 3.10A of the Listing Rules, the Company has appointed 3 Independent Non-executive Directors, representing more than one-third of the Board, of whom Mr. Leung Chi Hung is a certified public accountant (Practising) in Hong Kong. He has commenced his accountancy professional training since 1976 and now is the members of international accountancy bodies.

The Independent Non-executive Directors take an active role in board meetings, contribute to the development of strategies and policies and make sound judgement in various aspects. They will take lead when potential conflicts of interest arise. They are also the members of various Board committees and devote sufficient amount of time and attention to the affairs of the Company. Thus, the Board considers the current board size as adequate for its present operations.

The Company has received from each of its Independent Non-executive Directors the written confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company, based on such confirmations, considers Mr. Fung Siu Kit, Ronny, Mr. Leung Chi Hung and Mr. Tse Yuen Ming are independent.

### Role and Functions of the Board

The Board is responsible for approving and monitoring business plans, evaluating the performance of the Group and overseeing management. The Board also focuses on overall strategies and policies with particular attention paid to the development and financial performance of the Group.

The Board delegates the authority and responsibility for implementing day-to-day operations and management of the Group to Executive Directors and senior management, and certain specific responsibilities to the Board committees. The Board reserves certain key matters for its approval including the Group's long-term strategy, internal control, annual and half-yearly financial results and Shareholder communications, etc. Decisions of the Board are communicated to the management through Executive Directors who have attended the board meetings.

When the Board delegates certain aspects of its management functions to the management, it has given clear directions as to the powers of management, in particular, with respect to the circumstances. The final decision still rests with the Board unless otherwise provided for in the terms of reference of relevant committees.

## BOARD OF DIRECTORS (continued)

### Board Meetings and Board Practices

The Board meets at least 4 times regularly a year to review the financial and operating performance of the Group. Throughout the year, 2 general meetings and 16 board meetings were held, in which 4 are regular board meetings. Details of the Directors' attendance are as follows:

| | Attendance in general meetings | Attendance in board meetings |
|---|---|---|
| **Executive Directors** | | |
| Mr. Au Tat Wai *(Chief Executive Officer)* | 2/2 | 16/16 |
| Mr. Choy Kai Sing | 2/2 | 16/16 |
| Mr. Ho Hon Chung, Ivan | 2/2 | 15/16 |
| **Non-executive Director** | | |
| Mr. Fung Wa Ko | 2/2 | 14/16 |
| **Independent Non-executive Directors** | | |
| Mr. Fung Siu Kit, Ronny | 2/2 | 14/16 |
| Mr. Leung Chi Hung | 2/2 | 14/16 |
| Mr. Tse Yuen Ming | 2/2 | 13/16 |

Notice of at least 14 days has been given to all Directors for all regular board meetings and all the Directors can include matter for discussion in the agenda whenever they consider appropriate and necessary. The Directors will receive details of agenda items for decision at least 3 days before regular meetings. Apart from the regular board meetings of the year, the Board had met on other occasions when a board level decision on a particular matter is required. Minutes of the board meetings will be received by those Directors within reasonable time after the meetings.

In addition, to facilitate the decision-making process, the Directors are free to have access to the management for enquiries and to obtain further information. Where queries are raised by Directors, the management is responsible to respond as promptly and fully as possible. The Directors can also seek independent professional advice, in appropriate circumstances, at the Company's expense in performing their duties to the Company. All Directors have unrestricted access to the advice and services of the Company Secretary, who ensures that the Board receives appropriate and timely information for its decision-making and that board procedures are being followed. The Company Secretary is also responsible for ensuring the procedures of the board meetings are observed and providing the Board opinions on matters in relation to the compliance with the procedures of the board meetings. Moreover, the Company Secretary prepares minutes and keeps records of matters discussed and decisions resolved at all board meetings. The minutes are open for inspection at any reasonable time on reasonable notice by any Director.

If a substantial Shareholder or a Director has a conflict of interest in a matter to be considered by the Board which the Board has determined to be material, the matter should be dealt with by a physical board meeting rather than a written resolution. Independent Non-executive Directors who, and whose close associates, have no material interest in the transaction should be present at the relevant board meeting. Any Director who or whose associates have any material interest in any proposed board resolutions will not be counted as a quorum in the relevant board meeting and will be regarded as no vote for the board resolutions.

## BOARD OF DIRECTORS (continued)

### Continuing Professional Development

The Company Secretary is responsible to update the Board on governance and regulatory matters.

Introduction tailored kit will be given to newly appointed director to his individual needs. This includes introduction to Group activities, induction into their responsibilities and duties, and other regulatory requirements. The Board is regularly updated with management's strategic plans, lines of business, financial objectives, plans and actions.

The Company will arrange and/or introduce some Director's training courses for them to develop and explore their knowledge and skills.

According to the code provision A.6.5 of the CG Code, all directors shall participate in continuous professional development to develop and refresh their knowledge and skills to ensure their contribution to the board remains informed and relevant.

The Directors confirmed that they have complied with the code provision A.6.5 of the CG Code on the Directors' training. During the year ended 31st December, 2018, the following Directors have participated in continuous professional development by attending seminars or reading materials on the following topics to develop and refresh their knowledge and skills and provided a record of training to the Company:

| Directors | Topics on training covered (Note) |
|---|---|
| **Executive Directors:** | |
| Mr. Au Tat Wai *(Chief Executive Officer)* | (a), (c) |
| Mr. Choy Kai Sing | (a), (b), (c) |
| Mr. Ho Hon Chung, Ivan | (a), (c) |
| **Non-executive Director:** | |
| Mr. Fung Wa Ko | (a), (c) |
| **Independent Non-executive Directors:** | |
| Mr. Fung Siu Kit, Ronny | (a), (c) |
| Mr. Leung Chi Hung | (a), (b), (c) |
| Mr. Tse Yuen Ming | (a) |

Notes:

(a) corporate governance

(b) regulatory

(c) managerial/financial/economic

### Directors' and Officers' Liabilities

The Company has arranged for appropriate insurance covering the liabilities of the Directors that may arise out the corporate activities, which has been complied with the CG Code. The insurance coverage is reviewed on an annual basis.

## BOARD OF DIRECTORS (continued)

### Appointment, Re-election and Removal

Mr. Au Tai Wai and Mr. Choy Kai Sing, the Executive Directors, and Mr. Fung Siu Kit, Ronny, the Independent Non-executive Director, who were re-elected by the Shareholders in the 2018 annual general meeting, had entered into the letters of appointment with the Company on 25th May, 2018.

Mr. Fung Wa Ko, the Non-executive Director, and Mr. Leung Chi Hung and Mr. Tse Yuen Ming, the Independent Non-executive Directors, who were re-elected by the Shareholders in the 2017 annual general meeting, had entered into the letters of appointment with the Company on 26th May, 2017.

Mr. Ho Hon Chung, Ivan, the Executive Director who was re-elected by the Shareholders in the 2016 annual general meeting, had entered into the letter of appointment with the Company on 27th May, 2016.

The current letters of appointment of all Directors are for an initial term of 3 years from their respective dates of re-election by Shareholders. Such term shall end in any event on either: (i) termination by either party given the other not less than 3 months' notice; or (ii) the date on which the Director shall retire by rotation as required by the Bye-Laws of the Company, whichever is the earlier. The appointment of each Director is subject to retirement by rotation and re-election as required by the Bye-Laws of the Company.

According to the Bye-Laws of the Company, any director so appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment, and every director, including those appointed for a specific term, should be subject to retirement by rotation at least once every 3 years, so as to comply with code provision A.4.2 of the CG Code.

### Chairman and Chief Executive

According to the CG Code requirement, the chairman and chief executive of the Company should perform separate functions to ensure an appropriate balance of power, increased accountability and greater capacity of the Board for independent decision-making. The chairman has executive responsibilities and provides leadership to the Board in terms of establishing policies and business directions. The chairman ensures that the Board works effectively and performs its responsibilities, and all key and appropriate issues are discussed by the Board in a timely manner.

Upon the resignation of Mr. Fung Wa Ko as the Chairman on 14th October, 2011, there have been no Chairman in the Company. During the year ended 31st December, 2018, Mr. Au Tat Wai and Mr. Choy Kai Sing acted as the Chief Executive Officer and Chief Financial Officer of the Company respectively. Mr. Au Tat Wai is responsible for all day-to-day corporate management matters and Mr. Choy Kai Sing is responsible for corporate financial matters. Since there is no Chairman in the Company during the year ended 31st December, 2018, there was no meeting held between the Chairman and the Non-executive Directors (including Independent Non-executive Directors) without the Executive Directors present and the Company did not comply with code provisions A.2.1 and A.2.7.

According to the code provision E.1.2 of the CG Code, the chairman of the Board should attend the annual general meeting and invite the chairmen of the Audit, Nomination and Remuneration Committees to answer the questions at the general meeting. Since there was no Chairman in the Company during the year ended 31st December, 2018, the Company did not comply with code provision E.1.2.

The Board does not have the intention to fill the position of Chairman at present and believes that the absence of a Chairman will not have adverse effect to the Company, as decisions of the Company will be made collectively by the Board. The Board will keep reviewing the current structure of the Board and the need of appointment of a suitable candidate to perform the role of Chairman. Appointment will be made to fill the post to comply with the CG Code if necessary.

## COMMITTEES OF THE BOARD

### Nomination Committee

The nomination committee of the Company (the "Nomination Committee") was established on 30th June, 2005 with adoption of its terms of reference on 12th July, 2005. In order to comply with the CG Code, the terms of reference of the Nomination Committee were amended and approved on 28th March, 2012. They include making recommendations for all appointment and re-appointment of Directors to the Board and the relevant terms of reference are available on the websites of the Stock Exchange and the Company. The Nomination Committee currently comprises 3 members, all of whom are Independent Non-executive Directors and its members are:

Mr. Tse Yuen Ming *(Chairman)*
Mr. Fung Siu Kit, Ronny
Mr. Leung Chi Hung

### Director's Nomination Policy

The director's nomination policy of the Company (the "Nomination Policy") was adopted by the Board and became effective on 1st January, 2019 and the Nomination Committee is responsible for execution.

#### Director Nomination Process

The Nomination Committee utilises various methods for identifying director candidates, including recommendations from Board members, management, and headhunters. The Nomination Committee may also put forward director candidates who are not nominated by Board members. In addition, the Nomination Committee will consider director candidates properly submitted by Shareholders through formal procedures set out in the Company's Procedures for Shareholders to Propose a Person for Election as a Director.

For filling a casual vacancy, the Nomination Committee shall make recommendations for the Board's consideration and approval. For proposing director candidates to stand for election at a general meeting, the Nomination Committee shall make nominations to the Board for its consideration and recommendation.

All director candidates, including incumbents and candidates nominated by Shareholders are evaluated by the Nomination Committee based upon the director's qualifications. While director candidates will be evaluated on the same criteria, the Nomination Committee retains the discretion to establish the relative weighting of such criteria, which may vary based on the composition, skill sets, and experiences of the collective Board rather than on the individual candidate.

The Board shall have the final decision on all matters relating to the recommendation of director candidates by the Nomination Committee to stand for election at any general meeting. The Board will take such recommendations under advisement and is responsible for designating the director candidates to be elected at the annual general meeting of the Company and electing directors to fill Board vacancies.

## COMMITTEES OF THE BOARD (continued)

### Director's Nomination Policy (continued)

Procedure for Appointment of New Director

Director candidates will be asked to submit the necessary personal information in a prescribed form, together with their written consent to be appointed as a Director and to the public disclosure of their personal data on any documents or the relevant websites for the purpose of or in relation to their standing for election as a Director.

The Nomination Committee shall, upon receipt of the proposal on appointment of new director and the biographical information (or relevant details) of the director candidate, evaluate such director candidate based on the criteria as set out below to determine whether such director candidate is qualified for directorship.

If the process yields one or more desirable director candidates, the Nomination Committee shall rank them by order of preference based on the needs of the Company and reference check of each director candidate (where applicable).

For any person that is nominated by a Shareholder for election as a Director at the general meeting of the Company, the Nomination Committee shall evaluate such director candidate based on the criteria as set out below to determine whether such director candidate is qualified for directorship and where appropriate, the Nomination Committee and/or the Board shall make recommendation to Shareholders in respect of the proposed election of Director at the general meeting.

A director candidate is allowed to withdraw his/her candidature at any time before the general meeting by serving a notice in writing to the company secretary of the Company.

Until the issue of the shareholder circular, the nominated persons shall not assume that they have been proposed by the Board to stand for election at the general meeting.

Procedure for Re-appointment of Director at General Meeting

The Nomination Committee shall review the overall contribution and service to the Company of the retiring Directors including their attendance of Board meetings and, where applicable, general meetings, and the level of participation and performance on the Board.

The Nomination Committee shall also review and determine whether the retiring Directors continue to meet the criteria as set out below.

The Nomination Committee and/or the Board shall then make recommendation to the Shareholders in respect of the proposed re-election of Directors at the general meeting.

## COMMITTEES OF THE BOARD (continued)

### Director's Nomination Policy (continued)

Director Selection Criteria

The Nomination Committee considers the following qualifications are at a minimum to be required of a director candidate in recommending to the Board potential new Director, or the continued service of existing Director:

1. the highest personal and professional ethics and integrity;

2. proven achievement and competence in the nominee's field and the ability to exercise sound business judgment;

3. qualifications including professional qualifications, skills, knowledge and experience that are complementary to those of the existing Board;

4. the ability to assist and support management and make significant contributions to the Company's success;

5. the contribution on diversity of the Board and any measurable objectives adopted by the Nomination Committee for achieving diversity on the Board;

6. an understanding of the fiduciary responsibilities that is required of a member of the Board and the commitment of time and energy necessary to diligently carry out those responsibilities; and

7. meet the "independence" criteria as required under the Listing Rules and the composition of the Board is in conformity with the provisions of the Listing Rules from time to time (where applicable).

Other than the foregoing, there are no stated minimum criteria for director candidate, although the Nomination Committee may also consider such other factors as it may deem are in the best interests of the Company and the Shareholders.

The Nomination Committee is also responsible for assessing the independence of each Independent Non-executive Director and conducting formal assessment of the effectiveness of the Board as a whole and the contribution of each Director to the effectiveness of the Board. In evaluating the Board's composition, the Nomination Committee considers a number of factors, including those set out in the CG Code.

In accordance with the Company's Bye-Laws, one-third of the Directors will retire from office at the Company's annual general meeting. In accordance with bye-law 87 of the Company's Bye-Laws, Mr. Ho Hon Chung, Ivan, Mr. Fung Wa Ko, Mr. Leung Chi Hung and Mr. Tse Yuen Ming will retire by rotation at the forthcoming annual general meeting of the Company and, being eligible, offer themselves for re-election.

During the year ended 31st December, 2018, the Nomination Committee has reviewed the structure, size and composition of the Board, including the balance of skills, knowledge and experience and independence of the Independent Non-executive Directors and made recommendation to the Board accordingly.

The Nomination Committee formulated the board diversity policy of the Company. The Company recognises and embraces the benefits of having a diverse Board to enhance the quality of its performance.

In designing Board's composition, the Nomination Committee will consider a number of aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service.

## COMMITTEES OF THE BOARD (continued)

### Nomination Committee (continued)

The Nomination Committee reviews the composition of the Board from diversified angles up to the date of this annual report and summarised as follows:

| | | No. of Director |
|---|---|---|
| Age group: | 40–50 | 1 |
| | 51–60 | 3 |
| | ≥ 61 | 3 |
| Gender: | Male | 7 |
| | Female | 0 |
| Educational background: | Hong Kong | 4 |
| | Overseas | 3 |
| Professional experience: | Professional associated | 3 |
| | Entrepreneur/Merchant | 4 |
| Length of service (year): | 1–10 | 2 |
| | ≥ 11 | 5 |
| Designation: | Executive Director | 3 |
| | Non-executive Director | 1 |
| | Independent Non-executive Director | 3 |

For the purpose of implementation of the board diversity policy, the following measurable objectives were adopted:

1. the number of independent non-executive directors should be not less than three and one-third of the Board;

2. at least one of the independent non-executive directors must have appropriate professional qualifications or accounting or related financial management expertise; and

3. at least one director should be the professional or have intensive experience of the industry on which the business of the Group is.

The Board has achieved the measurable objectives under board diversity policy for the year ended 31st December, 2018.

All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

The Nomination Committee will review the board diversity policy of the Company, as appropriate, to ensure its effectiveness and discuss any revisions that may be required, and recommend any such revisions to the Board for consideration and approval.

The Nomination Committee also monitors the implementation of the board diversity policy of the Company and reports to the Board on the achievement of the measurable objectives for achieving diversity under the board diversity policy of the Company.

## COMMITTEES OF THE BOARD (continued)

### Remuneration Committee

The remuneration committee of the Company (the "Remuneration Committee") was established on 30th June, 2005 with adoption of its terms of reference on 12th July, 2005. In order to comply with the CG code, the terms of reference of the Remuneration Committee were amended and approved on 28th March, 2012. The latest terms of reference are available on the websites of the Stock Exchange and the Company.

The Remuneration Committee currently comprises 3 Independent Non-executive Directors and its members are:

Mr. Fung Siu Kit, Ronny *(Chairman)*
Mr. Leung Chi Hung
Mr. Tse Yuen Ming

The Remuneration Committee performed the responsibility of making recommendations to the Board on the remuneration packages of individual Executive Directors and senior management, including benefits-in-kind, pension rights, and compensation payments, including any compensation payable for loss or termination of their office or appointment and advising the Board on the remuneration of all Non-executive Directors. In developing remuneration policies and making recommendation as to the remuneration of the Directors and senior management, the Remuneration Committee takes into account of the corporate goals and objectives of the Group as well as the performance of those individual Directors and senior management.

Remuneration package for Executive Directors:

1. The remuneration for the Executive Directors comprises basic salary, annual bonus, other benefits and retirement benefits scheme.

2. Salaries are reviewed annually. Salary increases are made where the Remuneration Committee believes that adjustments are appropriate to reflect performance, contribution, increased responsibilities and/or by reference to market/sector trends.

3. In addition to basic salary, Executive Directors and employees of the Company and its subsidiaries are eligible to receive a discretionary bonus taking into consideration factors such as market conditions as well as corporate and individual performances.

4. In order to attract, retain and motivate executives and key employees of the Group, the Company has adopted a share option scheme on 2nd June, 2015 (the "Share Option Scheme"). Such incentive scheme enables the eligible persons to obtain an ownership interest in the Company and thus will motivate them to optimise their contributions to the Group.

Details of the amount of Directors' emoluments during the financial year ended 31st December, 2018 are set out in note 11 to the consolidated financial statements and details of the Share Option Scheme are set out in the Directors' Report and note 31 to the consolidated financial statements.

During the year ended 31st December, 2018, the significant matters discussed by the Remuneration Committee are summarised as follows:

- Reviewed and approved the current remuneration policy of the Group; and

- Reviewed the remuneration package of the board members and senior management of the Group and made recommendation to the Board.

## COMMITTEES OF THE BOARD (continued)

### Audit Committee

The audit committee of the Company (the "Audit Committee") was established on 12th January, 2000 with reference to "A Guide for the Formation of an Audit Committee" issued by the Hong Kong Institute of Certified Public Accountants. In accordance with the requirements of the CG Code, the latest terms of reference of the Audit Committee were adopted on 31st December, 2018 and are available on the websites of the Stock Exchange and the Company.

The Audit Committee currently comprises 3 Independent Non-executive Directors and its members are:

Mr. Leung Chi Hung *(Chairman)*
Mr. Fung Siu Kit, Ronny
Mr. Tse Yuen Ming

The primary duties of the Audit Committee are to review, supervise and ensure the objectivity and credibility of financial reporting system, the internal audit function, risk management and internal control systems as well as to maintain an appropriate relationship with the external auditors of the Company.

During the year ended 31st December, 2018, the Audit Committee had performed the following work:

1. reviewed the audited financial statements for the year ended 31st December, 2017 and the unaudited financial statements for 3 months ended 31st March, 2018, 6 months ended 30th June, 2018 and 9 months ended 30th September, 2018;

2. reviewed the accounting principles and practices adopted by the Group;

3. reviewed the auditing and financial reporting matters;

4. reviewed the re-appointment of external auditors of the Company;

5. reviewed the daily operation work-flow of the major departments and divisions for sub-group;

6. reviewed the effectiveness of risk management and internal control systems; and

7. reviewed the effectiveness of the internal audit function.

Each member of the Audit Committee has unrestricted access to the auditors and all senior management of the Group. During the year ended 31st December, 2018, the Audit Committee had met twice with the external auditors of the Company.

The Audit Committee has recommended to the Board that Deloitte Touche Tohmatsu, Certified Public Accountants ("Deloitte Touche Tohmatsu"), be nominated for re-appointment as auditors of the Company at the forthcoming annual general meeting of the Company.

At the meeting held on 1st February, 2019, the Audit Committee reviewed the risk management and internal control review report. At the meeting held on 28th March, 2019, the Audit Committee also reviewed the Directors' report and audited financial statements for the year ended 31st December, 2018 together with the annual results announcement, with a recommendation to the Board for approval.

## COMMITTEES OF THE BOARD (continued)

### Attendance Record at Board Committee Meetings

The following table shows the attendance of the Board Committee meetings during the year:

| | Number of meetings attended/ Number of meetings held | | |
|---|---|---|---|
| | Audit Committee | Nomination Committee | Remuneration Committee |
| Mr. Fung Siu Kit, Ronny | 6/6 | 1/1 | 1/1 |
| Mr. Leung Chi Hung | 6/6 | 1/1 | 1/1 |
| Mr. Tse Yuen Ming | 4/6 | 0/1 | 0/1 |

The Board has ensured that the Board Committees are provided with sufficient resources to perform their duties.

### Corporate Governance Functions

According to code provision D.3 of the CG Code, the Board is responsible for performing the corporate governance duties of the Company in accordance with the written terms of reference adopted by the Board on 28th March, 2012. The Board shall have the following duties and responsibilities for performing the corporate governance duties of the Company:

- to develop and review the Group's policies and practices on corporate governance;
- to review and monitor the training and continuous professional development of Directors and senior management;
- to review and monitor the Group's policies and practices on compliance with legal and regulatory requirements;
- to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and
- to review the Group's compliance with the corporate governance code as set out in Appendix 14 to the Listing Rules and disclosure in the corporate governance report in annual report of the Company.

During the year ended 31st December, 2018, the Board has held 2 meetings for discussing corporate governance functions.

## DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Audit Committee and the Board have reviewed the Company's audited financial statements for the year ended 31st December, 2018. The Directors acknowledge their responsibilities for the preparation of the financial statements of the Group and ensure that the financial statements are in accordance with statutory requirements and applicable accounting standards. The Directors also ensure the timely publication of the financial statements of the Group.

The statement of the external auditors of the Company, Deloitte Touche Tohmatsu, about their reporting responsibilities on the financial statements of the Group is set out in the Independent Auditor's Report on page 52.

The Directors confirm that, to the best of their knowledge, information and belief, having made all reasonable enquiries, they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

## DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a written securities dealing policy which contains a set of code of conduct regarding securities transactions by Directors, the terms of which are on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules (the "Securities Dealing Policy").

Having made specific enquiry of all Directors of the Company, all Directors have confirmed that they had complied with the required standard set out in the Securities Dealing Policy during the year under review. No incident of non-compliance was noted by the Company during the year under review.

## EXTERNAL AUDITORS AND THEIR REMUNERATION

The Group's external auditors are Deloitte Touche Tohmatsu for the year ended 31st December, 2018 and they will hold office until the conclusion of the forthcoming annual general meeting of the Company. The annual financial statements for the year ended 31st December, 2018 have been audited by Deloitte Touche Tohmatsu.

The Audit Committee is responsible for considering the appointment of the external auditors and also reviews any non-audit functions performed by the external auditors of the Group. In particular, the Audit Committee will consider, in advance of them being contracted for and performed, whether such non-audit functions could lead to any potential material conflict of interest. The Audit Committee reviews each year a letter from the external auditors confirming their independence and objectivity and holds meetings with Deloitte Touche Tohmatsu to discuss the scope of their audit.

For the year ended 31st December, 2018, the external auditors of the Group provided the following services to the Group:

| | **2018**<br>**HK$'000** | 2017<br>HK$'000 |
|---|---|---|
| Audit service | **2,210** | 950 |
| Non-audit service | **480** | 230 |
| Total: | **2,690** | 1,180 |

## RISK MANAGEMENT AND INTERNAL CONTROL

The Board has responsibility for maintaining appropriate and effective risk management and internal control systems (the "RM and IC Systems") of the Group and reviewing its effectiveness through the Audit Committee. The Board has delegated its audit committee to review the Group's risk management and internal control matters at half-yearly period. The RM and IC Systems are designed to manage rather than eliminate risks of failure in operational systems so that the Company's objective can be achieved, and can only provide reasonable and not absolute assurance against material misstatement or loss. The Group has an effective financial reporting system including the adequacy of resources, qualified and experienced of staff and its training programmes and budget of the Group's accounting and financial reporting function.

The system of the internal control is designed to ensure that the financial and operational function, compliance control system, material control, asset management and risk management function are in place and functioning effectively to achieve business objective of the Group and prevent damage to the public image.

The Group has adopted a set of internal control procedures and policies for safeguarding assets against unauthorised use or disposition, controlling over capital expenditure, maintaining proper accounting records and ensuring the reliability of financial reporting used for business and publication, and ensuring the compliance with the relevant legislation and regulations.

The Company has adopted a whistleblowing policy since 28th March, 2012, which intended to encourage and enable employees to report violations or suspected violations and to raise serious concerns about possible improprieties in matters of financial reporting or other matters. No case of whistleblowing was noted by the Audit Committee during the year under review.

The Board, through the Audit Committee, has conducted the risk management and internal control review. The Company has been putting significant effort improving its risk management and internal control. Risk Management Policy has been established to formalise the risk management practice of the Group.

The Board sets the risk management objectives through board meetings from time to time. The Group has adopted a series of internal control measures including the strengthening of reporting lines of senior management. As a routine procedure and part of the RM and IC Systems, Executive Directors and the senior management would meet regularly to review the financial and operating performance of the key operating subsidiaries. The senior management of each department is also required to keep Executive Directors informed of material developments of the department's business and implementation of the strategies and policies set by the Board on a regular basis.

To further strengthen the risk management and internal control of the Group, the Company has engaged an independent professional adviser (the "Internal Control Adviser") to carry out the internal audit functions by performing independent appraisal of the adequacy and effectiveness of certain subsidiaries' RM and IC systems. The Internal Control Advisor has conducted a review and made recommendations to improve the effectiveness of the Group's risk management and internal controls systems (the "RM and IC Review").

## RISK MANAGEMENT AND INTERNAL CONTROL (continued)

The Company also has procedures in place to keep information confidential and manage actual or potential conflicts of interest. Stringent internal structures have been designed to prevent the misuse of inside information and avoid conflicts of interest. The Company conducts its affairs with close regard to the "Guidelines on Disclosure of Inside Information" issued by the Securities & Futures Commission in 2012; and the "Guide on Disclosure of Price-sensitive Information" and "Recent Economic Developments and the Disclosure Obligations of Listed Issuers" issued by the Stock Exchange in 2002 and 2008 respectively. The Company has adopted an overall policy of open communication by pursuing the broad, non-exclusionary distribution of information to the public. The Company has imposed a strict prohibition on the unauthorised use of confidential or inside information. Such prohibition is included respectively in the Code of Conduct of the Board which applies to all Directors and the Employee Handbook which applies to all staff. Information which is expected to constitute inside information under the Listing Rules or the Securities & Futures Ordinance (the "SFO") will be announced as soon as reasonably practicable after it becomes known to the Board and/or is the subject of a decision by the Board unless the information falls within any of the safe harbours as provided in the SFO. To ensure that the existing procedures continue to operate smoothly in practice, the Company undertakes regular reviews of the procedures having regard to the regulatory requirements and the expectations of the Shareholders and other stakeholders.

During the year ended 31st December, 2018, the Audit Committee, with the assistance of the Internal Control Adviser, has developed current year RM and IC systems appraisal plan, and focused on reviewing (i) the compliance risk management control of the Group; (ii) the financial reporting and disclosure control of the Group; (iii) the design effectiveness of trading business' operating controls, including revenue and receivable cycle, human resources cycle, payroll cycle and property, plant and equipment cycle; and (iv) the operating control effectiveness of trading business' expenditure cycle.

During the year ended 31st December, 2018, the Board was satisfied that the Group's risk management and internal control processes are adequate to meet the needs of the Group in its current business environment and that nothing has come to its attention to cause the Board to believe the Group's RM and IC Systems are inadequate. Moreover, the existing RM and IC Systems are effective and adequate, and will continue to be reviewed, added on or updated to provide for changes in the operating environment.

## COMPANY SECRETARY

All Directors have access to the advice and services of our Company Secretary to ensure that the Board procedures and all applicable laws are followed. Moreover, our Company Secretary is responsible for facilitating communications among Directors as well as with the management. Mr. Choy Kai Sing has been appointed as the Company Secretary of the Company since 6th August, 2003. The biographical details of Mr. Choy Kai Sing are set out under the section headed "Directors of the Company". According to the Rule 3.29 of the Listing Rules, Mr. Choy Kai Sing has taken no less than 15 hours of relevant professional training for the year ended 31st December, 2018.

## SHAREHOLDERS' RIGHTS AND INVESTOR RELATIONS

The Company uses two-way communication channels to account to Shareholders and investors for the performance of the Company. The Company values communication with Shareholders and investors. Enquiries and suggestions from Shareholders or investors are welcomed, and enquiries from Shareholders may be put to the Board through the following channels to the Company Secretary:

1. By mail to the Company's head office at Unit No. 1906, 19/F., West Tower, Shun Tak Centre, 168–200 Connaught Road Central, Hong Kong;

2. By telephone at telephone number (852) 3107 8600;

3. By fax at fax number (852) 2111 1438; or

4. By email at irelations@daidohk.com.

The annual general meeting is the principal forum for formal dialogue with Shareholders, where the Board is available to answer questions about specific resolutions being proposed at the meeting and also about the business of the Group. The management will ensure the external auditors of the Company to attend the forthcoming annual general meeting to answer questions about the conduct of the audit, the preparation and content of the auditors' report, the accounting policies and auditors independence.

According to the Company's Bye-Laws, Shareholders may request the Board at all times to call special general meetings if Shareholder(s) holds not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company at the date of deposit of the requisition. Shareholders shall request the Board to call special general meetings by written requisition to the Board or the Company Secretary of the Company through the above channels for the transaction of any business specified in such requisition; and such meeting shall be held within 2 months after the deposit of such requisition. If within 21 days of such deposit the Board fails to proceed to convene such meeting, the requisitionists themselves may do so in accordance with the provisions of the act of Bermuda.

## SHAREHOLDERS' RIGHTS AND INVESTOR RELATIONS (continued)

If a Shareholder wishes to propose a person (the "Candidate") other than the retiring Directors, for election as a Director at a general meeting, a written notice (the "Notice") shall be deposited at the Company's head office in Hong Kong at Unit No. 1906, 19/F., West Tower, Shun Tak Centre, 168–200 Connaught Road Central, Hong Kong.

The Notice (i) must include the personal information of the Candidate as required by Rule 13.51(2) of the Listing Rules and his/her contact details; and (ii) must be signed by the Shareholder concerned including the information/documents to verify the identity of the Shareholder and signed by the Candidate indicating his/her willingness to be elected and consent of publication of his/her personal data.

The period for lodgement of the Notice shall commence no earlier than the date after the dispatch of the notice of the general meeting appointed for such election and end no later than 7 days prior to the date of such general meeting.

In order to ensure the Shareholders have sufficient time to receive and consider the proposal of election of the Candidate as a Director without adjourning the general meeting, Shareholders are urged to submit and lodge the Notice as soon as practicable, say at least 15 business days prior to the date of the general meeting appointed for such election.

Extensive information about the Group's activities is provided in its annual reports and interim reports which are sent to Shareholders and investors. The Company's announcements, press release and publication are circulated and are also available on the website of the Stock Exchange. In order to provide effective disclosure to the Shareholders and investors and to ensure they all receive equal access to the same information at the same time, information considered to be of a price sensitive nature is released by way of formal public announcement as required by the Listing Rules.

The Board has established a Shareholders communication policy on 28th March, 2012 and reviews it on a regular basis to ensure its effectiveness to comply with the code provision E.1.4 of the CG Code.

In order to promote effective communication, the Company also maintains website (www.irasia.com/listco/hk/daido/index.htm) which discloses the latest information relating to the Group and its businesses.

## DIVIDEND POLICY

The dividend policy of the Company (the "Dividend Policy") was adopted by the Board and became effective on 1st January, 2019.

The Dividend Policy is to ensure that the Board maintains an appropriate procedure on declaring and recommending the dividend payment of the Company. The Board endeavors to strike a balance between the Shareholders' interests and prudent capital management with a sustainable dividend policy.

The declaration and recommendation of dividends is subject to the decision of the Board after considering the Company's ability to pay dividends, which will depend upon, among other things:

- the Group's financial results;
- the Group's cashflow, liquidity and capital requirements;
- the Group's debt to equity ratios and the debt level;
- the retained earnings and distributable reserves of the Group;
- the Group's shareholders' interests;
- the Group's current and future business operations, conditions, cycle and strategies;
- the general market conditions;
- the shareholders' and the investors' expectation and industry's norm;
- any restrictions on payment of dividends that may be imposed by the Group's lenders;
- statutory and regulatory restrictions;
- past dividend record; and
- any other factors the Board may deem relevant.

The Board has complete discretion on whether to pay a dividend and the form to pay, subject to any restrictions under the Companies Act of Bermuda and the Bye-laws of the Company. Any final dividends declared by the Company must be approved by an ordinary resolution of the Shareholders at an annual general meeting and must not exceed the amount recommended by the Board. The Board may also consider declaring special dividends from time to time, in addition to the interim and/or final dividends. There is no assurance that dividends will be paid in any particular amount for any given period.

The Company shall review and reassess the Dividend Policy and its effectiveness from time to time. Any revisions to the Dividend Policy shall be considered and approved by the Board.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## ABOUT THIS REPORT

This report is the third Environmental, Social and Governance ("ESG") report published by Daido Group Limited ("Daido" or the "Group"). It provides an update of the ESG achievements and progress of Daido during the year ended 31st December, 2018 ("the reporting year")

### Reporting Boundary

This report covers the key businesses of the Group, including cold storage and logistics services in Hong Kong[1]. While this report does not cover all of the Group's operations, the Group is constantly improving its internal data collection procedure, and will gradually expand the scope of disclosure.

### Reporting Standards

This report is prepared based on the ESG Reporting Guide (the "Guide") under Appendix 27 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited ("SEHK"). During its preparation, the Group adheres to the principles of materiality, quantitative, balance and consistency. With an aim to provide a more comprehensive report, this report includes certain key performance indicators ("KPI") under the 'recommended disclosure' of the Guide. A complete index is inserted in the last chapter of the report for reference.

### Confirmation and Approval

Information contained herein is sourced from the official documents and statistical data of the Group, and is aggregated from the management, operational and monitoring information in accordance with the policies of the Group. The report was approved by the board of directors on 29th March, 2019.

### Opinion and Feedback

Available in both Chinese and English, the report has been uploaded to the websites of the Group www.irasia.com/listco/hk/daido/index.htm and the SEHK. Daido values the opinion of stakeholders. If you have any questions or suggestions regarding the content or format of the report, please contact the Group through the following channels:

Address: Unit No. 1906, 19th Floor, West Tower, Shun Tak Centre, 168–200 Connaught Road Central, Hong Kong
Email: irelations@daidohk.com
Fax: (852) 2111 1438

[1] These businesses are operated by Brilliant Cold Storage Management Limited, Brilliant Top In Logistics Limited and Brilliant Giant Trading Limited.

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## MANAGEMENT MESSAGE

**"We embed sustainability in our business practices with a view to creating greater value for our stakeholders and the society."**

Our economies and lives depend on the efficient movement of goods. Efficient use of energy is central to our business as well as nearly every major challenge and opportunity the world faces today. While we strive to excel in the performance of our services, we actively seek ways to reduce our environmental footprint and make positive contribution to the community where we operate. We embed sustainability in our business practices with a view to creating greater value for our stakeholders and the society.

As sustainability becomes mainstream, new risks and opportunities are bound to emerge. In response, the Group aims at future-proofing its business by means of risk assessment. Social risks in relation to employee attraction, occupational safety and product responsibility have significant potential impact on our operation. In terms of environmental risks, we focus on improving energy efficiency of cold storage facilities and the choice of refrigerants. We closely monitor our exposure to these factors and the emergence of new risks in order to formulate corresponding measures.

To ensure the materiality of the report, we have appointed a consultant to conduct stakeholder engagement in the form of questionnaire and management interview. Such practices enable us to gain better understanding of the views and expectations of internal and external stakeholders in relation to our sustainability measures. Material issues in this report are determined by the feedback of stakeholders so that we can adequately address their concerns.

A sound sustainability governance structure headed by members of the board of directors serves to lead us to a more sustainable future in a systematic and gradual manner. Taking into account the long-term development of the Group, we will consider establishing a specialised committee comprising of representatives of different departments. As such, the Group can move forward on the journey of sustainability together with all partners.

**Au Tat Wai**
*Chief Executive Officer*
**Daido Group Limited**

## SUSTAINABILITY GOVERNANCE

### Risk Management and Internal Control

Daido considers risk management as an integral part of daily management and sound corporate governance. Systematic risk management practices are the means to ensure that the financial and operational functions, compliance control system, material control, asset management and risk management functions are in place to effectively achieve the business objectives of the Group and prevent damage to its public image.

The board has overall responsibility for evaluating and determining the nature and extent of the risks involved in achieving the Group's strategic objectives and overseeing the risk management and internal control systems (the "RM and IC Systems"), including reviewing their effectiveness through the Audit Committee.

As part of the Group's RM and IC Systems, it is the priority of the Audit Committee to identify and analyse risk, including regulatory and emerging risks underlying the Group's environmental and social performance. Reporting to the board which oversees the overall direction of the Group's ESG vision and strategies, the Audit Committee is responsible for developing risk management strategies as well as monitoring and evaluating the effectiveness of the system.

### Risk Factors

Considering the ESG-related regulatory requirements and emerging risks, the most significant ESG risks faced by the Group are outlined below.

**Health and Safety**

The nature of the Group's operations exposes it to health and safety risks. Work-related accidents can occur in the use of machinery and equipment, manual lifting and driving vehicles. Any regulatory action, legal liability and cost that follow may negatively affect the Group's operation and reputation.

The Group's Safety Committee and Code guide the measures that it undertakes to manage the above risks. Details of the Group's current practices in maintaining a healthy and safe workplace are presented on page 48.

**Ageing Employees**

An ageing workforce may create risks of declining productivity and safety performance, while failure to recruit young employees can result in pressure on Daido's long-term sustainability.

The Group has in place a human resource management system to manage the risks above and attract young people to join the Group by providing competitive compensation and welfare. In addition, the Group is diversifying its recruitment sources and channels, and plans to introduce new technology to attract younger job applicants. Please refer to page 47 for more details.

## STAKEHOLDER ENGAGEMENT

### Main Means of Stakeholder Engagement

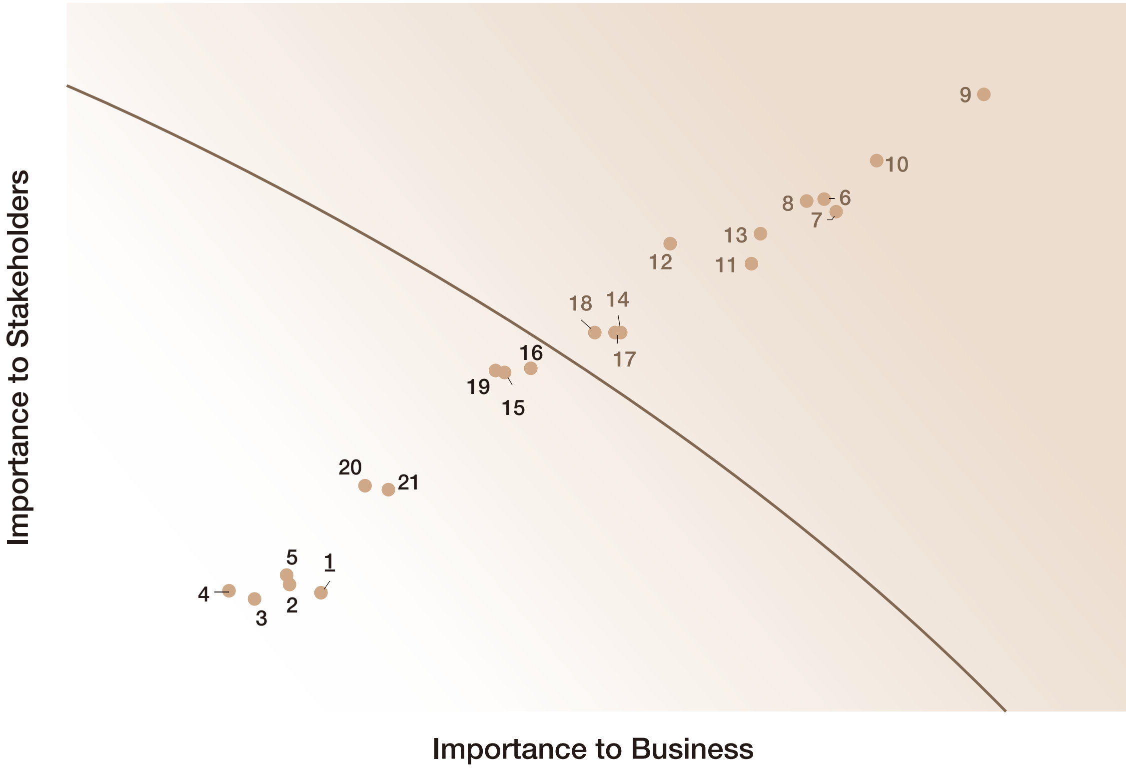
The Group interacts with a wide range of stakeholders, including employees, shareholders, clients, suppliers, the government, industry associations, banks and business partners on a regular basis, through various channels such as e-mails, meetings, seminars, interviews and factory visits. Engaging with stakeholders helps the Group identify their concerns, needs and expectations, in order to review potential risks and opportunities and develop corresponding policies.

### Material Sustainability Issues

Same as the previous reporting year, the Group commissioned an independent consultant, Carbon Care Asia ("CCA"), to conduct an interview with the management to discuss the Group's sustainability strategy and directions.

In addition, internal and external stakeholders were invited to rate 21 issues in a survey according to the importance of the issues to them and the Group's business. A total of 313 questionnaires were distributed and a total of 130 valid responses were received. Through expert review and materiality analysis, the Group has identified 11 material ESG issues based on inputs from the stakeholders.

Daido's Materiality Matrix 2018




| Number | Issues (in descending order of importance) |
|---|---|
| 9 | Health and safety: Personal protective equipment* |
| 10 | Employee training* |
| 6 | Employment* |
| 7 | Equal opportunities, diversity and anti-discrimination* |
| 8 | Health and safety: Job hazard analysis and safety measures* |
| 13 | Prevention of forced labour* |
| 11 | Development opportunities* |
| 12 | Prevention of child labour* |
| 14 | Supply chain management: risk analysis* |
| 17 | Protection of client's rights* |
| 18 | Anti-corruption* |
| 16 | Product responsibility |
| 15 | Supply chain management: monitoring |
| 19 | Grievance mechanism for anti-corruption |
| 21 | Community investment: resources investment |
| 20 | Community investment: understanding of community needs |
| 1 | Management of emissions |
| 5 | Understanding of operation's impact on the environment |
| 2 | Management of waste |
| 3 | Measures for efficiency in water use |
| 4 | Measures for efficiency in energy and paper use |

* Material issue of the reporting year

To ensure the effectiveness of stakeholder engagement, the Group dedicates itself to establishing communication mechanisms for transparency, integrity and accuracy and providing timely response. At the same time, the Group will continue to strengthen stakeholder engagement and collect more diverse range of stakeholders' views through various channels.

## EMPLOYMENT AND LABOUR PRACTICES

### Health and Safety

Daido values the health and safety of its employees. It is committed to complying with relevant occupational health and safety laws and regulations, and providing its employees with a safe and healthy working environment.

The Group has included safety policies in the Staff Handbook and Environmental, Social and Governance Policies, and formulated the Safety Guidelines, which cover aspects such as general safety, first aid, fire prevention measures, cold storage warehouse safety, elevator safety, manual lifting and handling, etc. These Safety Guidelines are available on the notice board for employees' information.

A Safety Committee consisting of all key management members and department heads reviews and discusses safety issues every three months to six months. Furthermore, Daido prepares necessary protective tools and first-aid kits at workplaces, provides health insurance covering out-patient services and hospital expenses, and implements occupational hazard controls to protect its employees.

The Group also encourages employees to improve their safety awareness and practices. Its efforts include providing new workers with safety training before commencement of work, providing all employees with the necessary job information, guidance, training and supervision, as well as arranging rescue, fire and evacuation drills regularly.

In the reporting year, a total of eight minor work-related accidents occurred. All cases of injury were reviewed and discussed by the key management and department heads in the quarterly safety meetings.

Four safety meetings were held throughout the year. Daido's directors and heads from departments of engineering, human resources and administration, warehouse, logistic, and quality assurance attended the meeting to discuss the work-related injuries that happened during the period. Some accidents were caused by slips. In response, all department heads strengthened the management and monitoring of the safety awareness and operation of employees, and ensured clear communication with employees on related safety issues.

In the reporting year, the Group complied with laws and regulations related to health and safety, including but not limited to the Occupational Safety and Health Ordinance in Hong Kong. There were no non-compliance cases in relation to providing a safe working environment and protecting employees from occupational hazards.

### Development and Training

According to the Group's Staff Handbook, the Group regularly assesses the needs for arranging value-added training courses to employees, to keep them informed about the latest developments in the industry and market, and further enhance their knowledge and skills. Besides, subsidies are provided for relevant job-related courses for employees' personal development.

The Group values the career planning and development of employees and has established the procedure of annual performance evaluation. The procedure was designed to evaluate employees' performance, recognise their achievement and identify areas for improvement. The assessment result provides a basis for pay increase and promotion.

### Employment System

| Number of employees | Percentage of new employees | Rate of employee turnover |
| --- | --- | --- |
| 217 (-6.5%) | 6.5% (- 3.4%) | 13.4% (+1.3%) |

The Group's Staff Handbook and Environmental, Social and Governance Policies set out information on recruitment, promotion, dismissal, working hours, compensation, benefits, equal opportunities, diversity and anti-discrimination to ensure that employees understand their rights and duties. Facing the risk of ageing workforce, the Group has been working actively to attract more young people by diversifying its recruitment channels, for example, participating in job fairs organised by the Labour Department. The Group is also considering to introduce more automation equipment in its warehouses as an attraction for younger job applicants.

The Group recognises employee's contribution fairly and objectively, and offers competitive pay and benefits. Employee compensation is periodically reviewed and adjusted by the Human Resources Department. In addition, a comprehensive appraisal system is in place to assess and reward the achievements and contributions of the employees on an annual basis.

To protect the well-being of employees, the Group encourages work-life balance and offers a range of paid-leave entitlements. The Group also provides a series of benefits, such as medical insurance, discretionary bonuses, transportation allowances and tuition fee reimbursements.

All employees, irrespective of age, sex, physical or mental health status, marital status, family status, race, skin colour, nationality, religion, political affiliation and sexual orientation, receive equal opportunities. The Human Resources Department is responsible for ensuring compliance with the Sex Discrimination Ordinance, the Disability Discrimination Ordinance and the Family Status Discrimination Ordinance.

The Group also has zero tolerance for harassment in the workplace. The Staff Handbook provides the definitions and procedures for dealing with harassment. If any suspected non-compliance is noted, employees could report to any Executive Directors who would then be responsible for investigation. The harasser will receive disciplinary punishment or be dismissed by the Group in accordance with section 9 of the Employment Ordinance.

In the reporting year, the Group complies with laws and regulations related to employment, including but not limited to the Employment Ordinance in Hong Kong. There were no cases of non-compliance in relation to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.

In the future, the Group will review its current policies and evaluate how to refine the employment guidelines related to equal opportunities, diversity and anti-discrimination.

### Labour Standards

Daido adopts a zero-tolerance policy against the use of child labour and forced labour. Stringent measures are taken to ensure adherence to international and local labour standards. The Human Resources Department is required to conduct inspection of proof of any job applicant's identity through documents such as government-issued photo identification, birth certificate and driver's license, and to check the likeness of the photographs contained on these documents during the recruitment process. Suppliers and subcontractors are required to adopt the same values and ethical commitments to prohibiting child labour and forced labour with the Group.

During the reporting year, the Group complied with laws and regulations related to labour standards, including but not limited to the Employment Ordinance in Hong Kong. There were no non-compliance cases regarding preventing child and forced labour.

## OPERATING PRACTICES

Daido attaches importance to managing its relationships with suppliers and customers in a responsible and sustainable manner. The Group has always been looking to deliver quality services and protect its clients' rights, as well as to collaborate with suppliers that have common moral values and standards in sustaining operation.

### Supply Chain Management

In relation to procurement of materials and services, the Group has standardised procurement management flow to ensure that the process is open and fair. Regular monitoring and evaluation are carried out to assess the ability of suppliers to provide products or services as required. Suppliers that fall below the standards would be eliminated from Daido's list of suppliers.

Apart from factors such as technical capabilities and price competitiveness, Daido is also aware of the environmental and social impacts that may result from the operation of suppliers. According to the Group's Green Procurement Policy in its Environmental, Social and Governance Policies, it expects suppliers to demonstrate their commitments to safety and environmental stewardship by adopting various measures, such as encouraging energy conservation, promoting reduction of waste, and adopting systems and equipment that ensure a safe and risk-free operating environment. The Group works closely with its suppliers to ensure that requirements and shared values are understood.

### Product Responsibility

Daido adopts the Quality Control Manual, Working Operation Procedures and Working Instructions which comply with ISO 9001:2015 throughout its cold storage business. These documents list the requirements for quality management, including leadership and strategy, identifying potential risks and their causes, reviewing quality targets, maintaining close contact with clients for decision-making, conducting performance evaluation, and controlling and correcting non-conformities, etc.

The Quality Assurance Department is responsible for monitoring the operation and suggesting corrective actions whenever necessary. Such quality management system helps the Group maintain high service quality and reliability.

| Item | Performance of target |
|---|---|
| **Outward shipment** | (✔) Upon receiving the customer's shipping notice, have shipment ready within 30 to 60 minutes of customer arrival at warehouse for order pickup |
| **Order cancellation** | (✔) Limit order cancellation caused by each warehouse to no more than 1.5% of the total number of monthly order cancellation |
| **Customer complaints** | (✔) No more than two customer complaints in each warehouse each year |
| **Incident Report** | (✔) No more than six incidents caused by each warehouse per month |

Regular communication with customers is essential to delivering a high level of customer satisfaction. The Group conducts regular survey to assess customer satisfaction with respect to the warehousing and storage services provided. Combining responses of the customer questionnaire with the cause analysis of cancelled orders and report on customer complaints, prompt follow-up is ensured to address the relevant issues.

Securing customer information is also critical to maintaining good governance and building a trusting relationship between the Group and its customers. Requirements in the Group's Environmental, Social and Governance Policies regarding protection of customer information adheres to the Personal Data (Privacy) Ordinance and specifies that all collected customer information should only be used for business purposes and will be kept confidential. The Staff Handbook also emphasises the importance of data privacy and the punishments for improper behaviour, for example, employees who use customer data for non-company approved purposes without the Group's approval will be prosecuted with theft or infringement of company privacy.

The Group's operations do not involve advertising and labelling matters. In the reporting year, the Group complied with laws and regulations related to product responsibility, including but not limited to the Personal Data (Privacy) Ordinance in Hong Kong. There were no cases of non-compliance in relation to health and safety, advertising, labelling and privacy matters.

### Anti-corruption

Daido has zero-tolerance for bribery, extortion, fraud and money laundering in its business. The standards of anti-money laundering, and prevention of bribery, extortion and fraud have been incorporated in the Group's Staff Handbook and its Environmental, Social and Governance Policies. Employees must follow the code of conduct specified in the Group's guidance.

For instance, in order to prevent money laundering, employees shall conduct customer due diligence, identify and report any suspicious transactions. When accepting benefits, if the value of holiday or banquet gift, prize or souvenir exceeds the designated amount, the employee shall report to the CEO and inform managers of the Human Resources and Administration Department or the board of directors by written notice.

The Group has established the Whistle-blowing Policy and allow employees to report any suspected violations to any Executive Directors or the Chair of the Audit Committee in a confidential manner. The Group will review its polices regularly and make appropriate revisions.

In the reporting year, the Group complied with laws and regulations related to anti-corruption, including but not limited to the Prevention of Bribery Ordinance in Hong Kong. There were no reported cases, litigations or cases of non-compliance against the Group and its employees concerning bribery, extortion, fraud and money laundering.

## PROTECTING THE ENVIRONMENT

Daido places great importance on its responsibility to the environment. The Group has formulated various operation guidelines in its Environmental, Social and Governance Policies, managing its environmental impacts through reduction of emissions and efficient use of resources.

### Emissions

Emission of greenhouse gases is closely related to climate change. The Group has assigned an independent consultant, CCA, to assess its greenhouse gas emissions according to the Guidelines[2] compiled by the Environmental Protection Department and Electrical and Mechanical Services Department of Hong Kong.

In the reporting year, the consumption of electricity in warehouses and offices is the key contributor to greenhouse gases emissions, accounting for 64% of the Group's total greenhouse gas emissions. In order to minimise greenhouse gases emissions, the Group implements a range of measures such as using LED lighting in warehouses and offices, and promoting telecommunications to reduce the need for business travel.

| Scope | Source | Annual Emissions (tonnes of $CO_2$-e) |
|---|---|---|
| Scope 1: Direct Emissions | Mobile combustion | 639.76 |
| | Releases from equipment and systems | 2,727.00 |
| Scope 2: "Energy indirect" emissions | Purchased electricity[3] | 5,975.22 |
| Scope 3: Other indirect emissions | Paper waste disposed at landfills | 20.87 |
| | Freshwater processing | 4.45 |
| | Sewage treatment | 2.23 |
| | Business travel | 1.12 |
| | Greenhouse Gas Emissions in Total | 9,370.65 |
| | Greenhouse Gas Intensity (tonnes of $CO_2$-e/square metre floor area) | 0.15 |

At the same time, the use of motor vehicles also produces air emissions. Emissions control measures undertaken by the Group include participation in the Ex-gratia Payment Scheme for Phasing Out Pre-Euro IV Diesel Commercial Vehicles of the Environmental Protection Department. As of today, 100% vehicles meet Euro V standards. The emissions of nitrogen oxides were reduced by 20% as compared to the levels in 2017. Please refer to the KPI summary on page 46 for data on air emissions in the reporting year.

Daido is also concerned with managing waste generated from its operations, all of which is non-hazardous waste. The Group advocates waste reduction from source and encourages the reuse and recycling of waste in its daily operation. Recyclable wastes including carton boxes and plastic wrap were collected by cleaning staff and delivered to a recycling company.

2 Guidelines to Account for and Report on Greenhouse Gas Emissions and Removals for Buildings (Commercial, Residential or Institutional Purposes) in Hong Kong.

3 Ice making operation, which is not included in the reporting scope and boundary, shares the same electricity meter with the warehouse. Hence, electricity consumption from ice making operation is included in the greenhouse gas quantification.

In addition, around 0.25 tonnes of waste paper was collected and recycled by a paper recycling service provider. Same as the previous reporting year, an external waste management company was engaged to review the Group's waste management practices and give corresponding suggestions for the Group to refine its waste reduction strategy. For the amount of waste generated in the reporting year, please refer to the KPI Summary on page 46.

In the reporting year, the Group complied with laws and regulations related to emissions, including but not limited to the Air Pollution Control Ordinance in Hong Kong. There were no cases of non-compliance in relation to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.

### Use of Resources

The Group endeavours to reduce its resource consumption by striving for optimal resource use across its operations. Acknowledging that purchased electricity is the most consumed energy of the Group, Daido has implemented a range of electricity-saving initiatives, including:

- Regularly clean the air-conditioners' filter to maintain the effectiveness of refrigeration;
- Adjust the air-conditioners' temperature setting to an energy-saving level;
- Deploy natural light on office floors;
- Encourage employees to turn off lights and idle equipment when leaving the office.

In the reporting year, the Group participated in CLP's Automated Demand Response Programme, which helped gather detailed consumption information through smart meters and reduce electricity use during peak times by reschedule the operation of equipment.

Water is one of the key resources used in the ice making, cooling and cleansing process. The Group sources water from municipal water supplies and there was no issue in sourcing water in the reporting year. In terms of water efficiency initiative, the Group monitors water consumption regularly and repairs the leaking faucets or hoses in a timely manner.

On the other hand, the Group collects and reuses defrosting water from cold storage warehouses. This initiative saved about 20 cubic metres of water per day in the reporting year.

For the amount of resources consumed by the Group in the reporting year, please refer to the KPI Summary on page 46-47.

### The Environment and Natural Resources

Due to the nature of its business, Daido's operations do not have a significant impact on the environment and natural resources beyond the emissions and the use of resources discussed above. Nevertheless, the Group is mindful about the impact of its actions, such as the use of refrigerants, on the ozone layer and climate. More environmentally friendly refrigerants are promoted in Daido to replace the traditional refrigerant R-22. In addition, the Group takes into consideration the environmental impacts from its supply chain and adopts a Green Procurement Policy to give priority to environmentally friendly and energy-saving products.

## COMMUNITY INVESTMENT

To meet the expectations of various stakeholders and the communities in which the Group operates, Daido contributes to the communities by encouraging its employees to take part in volunteer services, as well as making donations to directly support or fund projects of various social service agencies, a commitment which is stated in its Environmental, Social and Governance Policies regarding community investment. In the reporting year, the Group continued to participate in the "Mooncakes for Charity 2018" programme of The Community Chest of Hong Kong and the "Pass-it-On Campaign 2018" of Hong Kong Red Cross. In the future, the Group will try its best to refine its community investment projects and make greater contributions to the well-being of the community.

## KPI SUMMARY

### Environmental Performance

| | Type | Annual Emissions in 2018 | Annual Emissions in 2017 |
|---|---|---|---|
| **Air emissions** | Nitrogen Oxides ($NO_x$) (kg) | **3,649.35** | 4,569.48 |
| | Sulphur Oxides ($SO_x$) (kg) | **3.88** | 3.69 |
| | Respiratory suspended particles (RSP) (kg) | **297.61** | 334.10 |

| | Scope | Annual Emissions in 2018 | Annual Emissions in 2017 |
|---|---|---|---|
| **Greenhouse Gas Emissions** | Scope 1:<br>Direct Emissions (tonnes of $CO_2$-e) | **3,366.76** | 3,008.63 |
| | Scope 2:<br>"Energy indirect" emissions[4] (tonnes of $CO_2$-e) | **5,975.22** | 6,303.94 |
| | Scope 3:<br>Other indirect emissions (tonnes of $CO_2$-e) | **28.67** | 31.14 |
| | Greenhouse Gas Emissions in Total (tonnes of $CO_2$-e) | **9,370.65** | 9,343.71 |
| | Greenhouse Gas Intensity (tonnes of $CO_2$-e/square metre floor area) | **0.15** | 0.15 |

| | Type | Annual Amount in 2018 | Annual Amount in 2017 |
|---|---|---|---|
| **Hazardous and Non-hazardous Waste** | Hazardous waste (tonnes) | **No hazardous waste generated** | No hazardous waste generated |
| | Hazardous waste intensity (tonnes/square metre floor area) | **N/A** | N/A |
| | Non-hazardous waste (tonnes) | **70.67** | 82.05 |
| | Non-hazardous waste intensity (tonnes/square metre floor area) | **0.001** | 0.001 |

| | Type | Annual Amount of consumption in 2018 | Annual Amount of consumption in 2017 |
|---|---|---|---|
| **Energy Consumption** | Direct Energy (MWh) | **2,446.34** | 2,324.47 |
| | Indirect Energy[4] (MWh) | **11,716.12** | 11,673.95 |
| | Total energy consumption (MWh) | **14,162.46** | 13,998.42 |
| | Energy intensity (MWh/square metre floor area) | **0.23** | 0.22 |

4 Ice making operation, which is not included in the reporting scope and boundary, shares the same electricity meter with the warehouse. Hence, electricity consumption from ice making operation is included in the greenhouse gas quantification.

| | Type | Annual Amount of consumption in 2018 | Annual Amount of consumption in 2017 |
|---|---|---|---|
| **Water Consumption** | Total water consumption (cubic metre) | **11,061.08** | 10,300.56 |
| | Water intensity (cubic metre/square metre floor area) | **0.18** | 0.16 |

| | Type | Annual Amount of consumption in 2018 | Annual Amount of consumption in 2017 |
|---|---|---|---|
| **Packaging materials** | Total packaging material used for finished products (tonnes) | **No packaging material was used** | No packaging material was used |
| | Packaging material intensity (tonnes/unit of product) | **Not applicable** | Not applicable |

## Social Performance

| | Gender | Rank | Below 30 | 30-50 | Over 50 | Total | Male to female ratio (2018) | Male to female ratio (2017) |
|---|---|---|---|---|---|---|---|---|
| **Total workforce** | Male | Senior managerial level | 0 | 5 | 11 | 217 | **3.7: 1** | 3.7: 1 |
| | | Managerial level | 2 | 11 | 15 | | | |
| | | General staff | 8 | 39 | 80 | | | |
| | Female | Senior managerial level | 0 | 8 | 1 | | | |
| | | Managerial level | 0 | 6 | 1 | | | |
| | | General staff | 5 | 14 | 11 | | | |

| | Gender | Rank | Below 30 | 30-50 | Over 50 | Total | New employee rate (2018) | New employee rate (2017) |
|---|---|---|---|---|---|---|---|---|
| **Number of new employees** | Male | Senior management | 0 | 0 | 0 | 14 | **6.5%** | 9.9% |
| | | Middle management | 0 | 1 | 0 | | | |
| | | General staff | 3 | 8 | 0 | | | |
| | Female | Senior management | 0 | 0 | 0 | | | |
| | | Middle management | 0 | 0 | 0 | | | |
| | | General staff | 1 | 1 | 0 | | | |

| | Gender | Rank | Below 30 | 30-50 | Over 50 | Total | Employee turnover rate (2018) | Employee turnover rate (2017) |
|---|---|---|---|---|---|---|---|---|
| **Employee turnover** | Male | Senior management | 0 | 0 | 0 | 29 | **13.4%** | 12.1% |
| | | Middle management | 0 | 2 | 0 | | | |
| | | General staff | 4 | 7 | 11 | | | |
| | Female | Senior management | 0 | 0 | 0 | | | |
| | | Middle management | 0 | 0 | 0 | | | |
| | | General staff | 1 | 3 | 1 | | | |

| | Year | Gender | Total |
|---|---|---|---|
| **Work-related injuries** | 2018 | Male | 6 |
| | | Female | 2 |
| | 2017 | Male | 7 |
| | | Female | 0 |

| | Year | Total |
|---|---|---|
| **Work-related fatalities** | 2018 | 0 |
| | 2017 | 0 |

| | Region | Total (2018) | Total (2017) |
|---|---|---|---|
| **Number of suppliers** | Hong Kong | **129** | 129 |
| | Mainland China | **6** | 6 |
| | Taiwan | **1** | 1 |
| | Germany | **1** | 1 |
| | Japan | **1** | 0 |

| | 2018 | 2017 |
|---|---|---|
| **Resources contributed to community investment projects** | **HKD 50,994** | HKD 54,292 |

## ESG REPORTING GUIDE CONTENT INDEX

| Material Aspect | Content | Page Index |
|---|---|---|
| ***A. Environmental*** | | |
| **A1 Emissions** | | |
| General Disclosure | Information on:<br>(a) the policies; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste. | 44,45 |
| A1.1 | The types of emissions and respective emissions data | 46 |
| | Nitrogen oxides (NOx) (kilogram) | 46 |
| | Sulphur oxides (SOx) (kilogram) | 46 |
| | Respiratory suspended particles (RSP) (kilogram) | 46 |
| A1.2 | Greenhouse gas emissions in total (tonnes CO2-e) | 44,46 |
| | Intensity of greenhouse gas emissions (tonnes CO2-e/m2 floor area) | 44,46 |
| A1.3 | Total hazardous waste produced (tonnes) | 46 |
| | Intensity of total hazardous waste produced (tonnes/m2 floor area) | 46 |
| A1.4 | Total non-hazardous waste produced (tonnes) | 46 |
| | Intensity of non-hazardous waste produced (tonnes/m2 floor area) | 46 |
| A1.5 | Description of measures to mitigate emissions and results achieved | 44,45 |
| A1.6 | Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved | 44,45 |
| **A2 Use of Resources** | | |
| General Disclosure | Policies on the efficient use of resources, including energy, water and other raw materials. | 45 |
| A2.1 | Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (MWh). | 46 |
| | Direct and/or indirect energy intensity by type (e.g. electricity, gas or oil) (MWh/m2 floor area) | 46 |
| A2.2 | Water consumption in total (m3) | 47 |
| | Water intensity (m3/m2 floor area) | 47 |
| A2.3 | Description of energy use efficiency initiatives and results achieved | 45 |
| A2.4 | Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved | 45 |
| A2.5 | Total packaging material used for finished products (tonnes) | 47 |
| | Packaging material intensity (tonnes/unit of product) | 47 |
| **A3 The Environment and Natural Resources** | | |
| General Disclosure | Policies on minimising the issuer's significant impact on the environment and natural resources. | 45 |
| A3.1 | Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them | 45 |

| Material Aspect | Content | Page Index |
|---|---|---|
| ***B. Social*** | | |
| **B1 Employment** | | |
| General Disclosure | Information on:<br>(a) the policies; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare. | 41 |
| B1.1 | Total workforce | 41,47 |
| | Total workforce by gender, employment type, age group and geographical region | 41,47 |
| B1.2 | Employee turnover rate | 41,48 |
| | Employee turnover rate by gender, age group and geographical region | 41,48 |
| GRI 401-1 | Total number of new employee hires | 41,47 |
| | Rate of new employee hires | 41,47 |
| | Total number and rate of new employee hires by gender, age group and geographical region | 41,47 |
| **B2 Health and Safety** | | |
| General Disclosure | Information on:<br>(a) the policies; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards. | 40 |
| B2.1 | Number and rate of work-related fatalities | 48 |
| B2.3 | Description of occupational health and safety measures adopted, how they are implemented and monitored | 40 |
| **B3 Development and Training** | | |
| General Disclosure | Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities. | 40 |
| **B4 Labour Standards** | | |
| General Disclosure | Information on:<br>(a) the policies; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour. | 42 |
| B4.1 | Description of measures to review employment practices to avoid child and forced labour | 42 |
| **B5 Supply Chain Management** | | |
| General Disclosure | Policies on managing environmental and social risks of the supply chain. | 42 |
| B5.1 | Number of suppliers by geographical region | 48 |
| B5.2 | Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored | 42 |

| Material Aspect | Content | Page Index |
|---|---|---|
| **B6 Product Responsibility** | | |
| General Disclosure | Information on:<br>(a) the policies; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress. | 42,43 |
| B6.4 | Description of quality assurance process and recall procedures | 42,43 |
| B6.5 | Description of consumer data protection and privacy policies, how they are implemented and monitored | 43 |
| **B7 Anti-corruption** | | |
| General Disclosure | Information on:<br>(a) the policies; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering. | 43 |
| B7.1 | Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases | 43 |
| B7.2 | Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored | 43 |
| **B8 Community Investment** | | |
| General Disclosure | Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests. | 45 |
| B8.2 | Resources contributed to the focus area | 48 |

Deloitte. 德勤

**TO THE MEMBERS OF DAIDO GROUP LIMITED**
*(incorporated in Bermuda with limited liability)*

## OPINION

We have audited the consolidated financial statements of Daido Group Limited (the "Company") and its subsidiaries (collectively referred to as "the Group") set out on pages 58 to 133, which comprise the consolidated statement of financial position as at 31st December, 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31st 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 (the "HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## BASIS FOR OPINION

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

## KEY AUDIT MATTERS

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

## KEY AUDIT MATTERS (continued)

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| **Impairment assessment of trade receivables** | |
| We identified impairment assessment of trade receivables as a key audit matter due to the significance of trade receivables to the Group's consolidated financial position and the involvement of subjective judgement and management estimates in evaluating the expected credit losses ("ECL") of the Group's trade receivables at the end of the reporting period.<br><br>As at 31st December, 2018, the Group's net trade receivables amounted to HK$67,423,000, which represented approximately 17% of total assets of the Group and out of these trade receivables carrying amount of HK$45,655,000 were past due. As explained in note 2 to the consolidated financial statements, in the current year, the Group has applied HKFRS 9 *Financial Instruments* in which impairment of trade receivables are measured under expected credit loss model.<br><br>As disclosed in notes 4 and 38 to the consolidated financial statements, the management of the Group estimates the amount of lifetime ECL of trade receivables based on individual assessment for significant balance whereas the remaining balance are assessed by means of provision matrix through grouping of various trade debtors that have similar risk exposure, after considering internal credit ratings of trade receivables, ageing, repayment history and/or past due status and forward-looking information of respective trade receivables. Estimated losses are based on historical observed default rates over the expected life of the trade receivables and are adjusted for forward-looking information.<br><br>As disclosed in note 20 to the consolidated financial statements, the Group's lifetime ECL on trade receivables as at 31st December, 2018 amounted to HK$506,000. | Our procedures in relation to impairment assessment of trade receivables included:<br><br>• Understanding how the management estimates the loss allowance for trade receivables;<br><br>• Challenging management's basis and judgement in determining credit loss allowance on trade receivables as at 31st December, 2018, including their identification of significant trade receivables, the reasonableness of management's grouping of the remaining trade receivables into different categories in the provision matrix, and the basis of estimated loss rate applied in each category in the provision matrix (with reference to historical default rates and forward-looking information);<br><br>• Checking calculation and basis of default rates adopted by the management for both individual assessment and assessment by provision matrix to the underlying information used by management, on a sample basis, with reference to the historical settlement analysis of trade receivables; and<br><br>• Checking the information used by management for developing the provision matrix for trade receivables, including ageing analysis as at 31st December, 2018, on a sample basis, by comparing individual items in the analysis with the relevant sales invoices and other supporting documents. |

## KEY AUDIT MATTERS (continued)

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| **Impairment assessment of loan receivables** | |
| We identified impairment assessment of loan receivables as a key audit matter due to the significance of loan receivables to the Group's consolidated financial position and the involvement of subjective judgement and management estimates in evaluating the ECL of the Group's loan receivables at the end of the reporting period.<br><br>As at 31st December, 2018, the Group's net loan receivables amounted to HK$68,464,000, which represented approximately 17% of total assets of the Group. As explained in note 2 to the consolidated financial statements, in the current year, the Group has applied HKFRS 9 *Financial Instruments* in which impairment of loan receivables are measured under expected credit loss model.<br><br>As disclosed in notes 4 and 38 to the consolidated financial statements, loan receivables are assessed for ECL individually. Loan receivables that are considered, with reference to internal credit rating, as low risk are assessed under 12-month ECL while loan receivables that are considered as doubtful or loss are assessed under lifetime ECL. The management of the Group estimates the amount of ECL of loan receivables based on the Group's historical default rates on these loan receivables by taking into consideration the Group's internal credit ratings of loan receivables, ageing, repayment history and/or past due status of respective loan receivables. Estimated loss rates are based on historical observed default rates over the expected life of the loan receivables and are adjusted by forward-looking information.<br><br>As disclosed in note 19 to the consolidated financial statements, the Group's ECL on loan receivables as at 31st December, 2018 amounted to HK$849,000. | Our procedures in relation to impairment assessment of loan receivables included:<br><br>• Understanding how the management estimates the loss allowance for loan receivables;<br><br>• Testing the integrity of information used by management to develop the expected credit loss model, including details of loan receivables as at 31st December, 2018, on a sample basis, by comparing individual items in the listing of loan receivables to the relevant loan agreements and other supporting documents;<br><br>• Challenging management's basis and judgement in determining credit loss allowance on loan receivables as at 31st December, 2018, and the basis of estimated loss rates applied in each loan receivable (with reference to historical default rates and forward-looking information);<br><br>• Testing historical settlements of loan receivables, by inspecting supporting documents in relation to bank receipts and corresponding supporting for settlements during the year; and<br><br>• For secured loan receivables, assessing the reasonableness of the ECL assessment prepared by management with reference to the fair value of the underlying collateral and other forward-looking information, if any, at the end of the reporting period. |

## OTHER INFORMATION

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

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

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

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

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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.

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

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

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

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

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

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

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

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

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

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

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

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

The engagement partner on the audit resulting in the independent auditor's report is Ka-Lai Man.

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*

Hong Kong
29th March, 2019

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

*FOR THE YEAR ENDED 31ST DECEMBER, 2018*

| | NOTES | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|---|
| Revenue | 5 | **309,246** | 275,493 |
| Direct costs | | **(263,900)** | (245,951) |
| Gross profit | | **45,346** | 29,542 |
| Other income | 6 | **1,786** | 1,257 |
| Selling and distribution expenses | | **(17,654)** | (12,529) |
| Administrative expenses | | **(44,813)** | (39,194) |
| Impairment losses recognised on loan receivables | | **(849)** | – |
| Impairment losses recognised on trade receivables | | **(506)** | (36) |
| Other gains and losses | 7 | **(6,458)** | (8,314) |
| Share of loss of an associate | | **(8,021)** | – |
| Finance costs | 8 | **(6,765)** | (6,077) |
| Loss before tax | | **(37,934)** | (35,351) |
| Taxation | 9 | **–** | – |
| Loss for the year | 10 | **(37,934)** | (35,351) |
| Other comprehensive (expense) income for the year | | | |
| *Item that may be reclassified subsequently to profit or loss:* | | | |
| Exchange differences arising on translation of foreign operations | | **(596)** | 381 |
| Total comprehensive expense for the year | | **(38,530)** | (34,970) |
| Loss for the year attributable to: | | | |
| Owners of the Company | | **(37,934)** | (35,351) |
| Non-controlling interests | | **–** | – |
| | | **(37,934)** | (35,351) |
| Total comprehensive expense for the year attributable to: | | | |
| Owners of the Company | | **(38,530)** | (34,970) |
| Non-controlling interests | | **–** | – |
| | | **(38,530)** | (34,970) |
| Loss per share – basic | 13 | **(HK1.56 cents)** | (HK1.45 cents) |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*AT 31ST DECEMBER, 2018*

| | NOTES | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|---|
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | 14 | **4,876** | 7,578 |
| Goodwill | 15 | **68** | 68 |
| Interest in an associate | 16 | **10,998** | – |
| Loan to an associate | 16 | **47,525** | – |
| Financial assets at fair value through profit and loss ("FVTPL") | 17 | **731** | – |
| Equity instrument at fair value through other comprehensive income ("FVTOCI") | 18 | **–** | – |
| Available-for-sale investment | 18 | **–** | 38,502 |
| Rental deposits paid | | **25,488** | 25,038 |
| Pledged bank deposits | 34 | **105,353** | 102,975 |
| Loan receivables | 19 | **28,000** | 12,262 |
| | | **223,039** | 186,423 |
| **CURRENT ASSETS** | | | |
| Inventories | | **1,207** | 693 |
| Trade and other receivables, deposits and prepayments | 20 | **74,873** | 59,490 |
| Loan receivables | 19 | **40,464** | 51,318 |
| Amount due from non-controlling interests of a subsidiary | 21 | **–** | 9,760 |
| Held for trading investments | 17 | **–** | 902 |
| Bank balances and cash | 22 | **55,898** | 94,792 |
| | | **172,442** | 216,955 |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | 23 | **29,365** | 28,884 |
| Contract liabilities | 24 | **7,530** | – |
| Amount due to an investee | 25 | **–** | 39,042 |
| Bank borrowing | 26 | **65,000** | – |
| Obligations under finance leases | 27 | **203** | 594 |
| | | **102,098** | 68,520 |
| **NET CURRENT ASSETS** | | **70,344** | 148,435 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **293,383** | 334,858 |

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

*AT 31ST DECEMBER, 2018*

| | NOTES | **2018** HK$'000 | 2017 HK$'000 |
|---|---|---|---|
| **CAPITAL AND RESERVES** | | | |
| Share capital | 28 | **24,323** | 24,323 |
| Share premium and reserves | | **157,331** | 195,321 |
| Equity attributable to owners of the Company | | **181,654** | 219,644 |
| Non-controlling interests | | **5,163** | 14,923 |
| | | **186,817** | 234,567 |
| **NON-CURRENT LIABILITIES** | | | |
| Derivative financial instruments | 29 | **6,478** | – |
| Obligations under finance leases | 27 | **88** | 291 |
| Bonds | 30 | **100,000** | 100,000 |
| | | **106,566** | 100,291 |
| | | **293,383** | 334,858 |

The consolidated financial statements on pages 58 to 133 were approved and authorised for issue by the board of directors on 29th March, 2019 and are signed on its behalf by:

**AU TAT WAI**
*Director*

**CHOY KAI SING**
*Director*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

*FOR THE YEAR ENDED 31ST DECEMBER, 2018*

| | Attributable to owners of the Company | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Share capital HK$'000 | Share premium HK$'000 | Capital reserve HK$'000 (note) | FVTOCI reserve HK$'000 | Translation reserve HK$'000 | Accumulated losses HK$'000 | Total HK$'000 | Non-controlling interests HK$'000 | Total HK$'000 |
| At 1st January, 2017 | 24,323 | 374,226 | 39,984 | – | (1,260) | (182,659) | 254,614 | 14,923 | 269,537 |
| Loss for the year | – | – | – | – | – | (35,351) | (35,351) | – | (35,351) |
| Other comprehensive income for the year | – | – | – | – | 381 | – | 381 | – | 381 |
| Total comprehensive income (expense) for the year | – | – | – | – | 381 | (35,351) | (34,970) | – | (34,970) |
| At 31st December, 2017 | 24,323 | 374,226 | 39,984 | – | (879) | (218,010) | 219,644 | 14,923 | 234,567 |
| Adjustment (note 2) | – | – | – | (110,078) | – | 110,618 | 540 | – | 540 |
| At 1st January, 2018 (restated) | 24,323 | 374,226 | 39,984 | (110,078) | (879) | (107,392) | 220,184 | 14,923 | 235,107 |
| Loss for the year | – | – | – | – | – | (37,934) | (37,934) | – | (37,934) |
| Other comprehensive expense for the year | – | – | – | – | (596) | – | (596) | – | (596) |
| Total comprehensive expense for the year | – | – | – | – | (596) | (37,934) | (38,530) | – | (38,530) |
| Distribution to non-controlling interests | – | – | – | – | – | – | – | (9,760) | (9,760) |
| At 31st December, 2018 | 24,323 | 374,226 | 39,984 | (110,078) | (1,475) | (145,326) | 181,654 | 5,163 | 186,817 |

Note: On 24th November, 2009, every five issued and unissued existing shares of HK$0.01 each in share capital of the Company was consolidated into one consolidated share of HK$0.05 (the "Share Consolidation"). After completion of Share Consolidation, the par value of each issued consolidated share is reduced from HK$0.05 to HK$0.01 by cancelling the paid up capital to the extent of HK$0.04 on each issued consolidated share (the "Capital Reduction"). The credit arising in the accounts of the Company from the Capital Reduction was credited to capital reserve account of the Company on 18th December, 2009.

# CONSOLIDATED STATEMENT OF CASH FLOWS

*FOR THE YEAR ENDED 31ST DECEMBER, 2018*

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| **OPERATING ACTIVITIES** | | |
| Loss for the year | **(37,934)** | (35,351) |
| Adjustments for: | | |
| Change in fair value of derivative financial instruments | **6,478** | – |
| Change in fair value of financial assets at FVTPL | **171** | – |
| Change in fair value of held for trading investments | **–** | (200) |
| Depreciation of property, plant and equipment | **5,208** | 4,849 |
| Finance costs | **6,765** | 6,077 |
| (Gain) loss on disposal of property, plant and equipment | **(191)** | 1 |
| Impairment loss recognised on goodwill | **–** | 8,513 |
| Impairment loss recognised on loan receivables | **849** | – |
| Impairment loss recognised on trade receivables | **506** | 36 |
| Imputed interest income on loan to an associate | **(281)** | – |
| Interest income | **(972)** | (951) |
| Share of loss of an associate | **8,021** | – |
| Operating cash flows before movements in working capital | **(11,380)** | (17,026) |
| Increase in rental deposits paid | **(450)** | (3,256) |
| (Increase) decrease in trade and other receivables, deposits and prepayments | **(16,487)** | 5,525 |
| (Increase) decrease in inventories | **(514)** | 45 |
| Increase in loan receivables | **(5,733)** | (21,687) |
| Increase (decrease) in trade and other payables | **7,692** | (3,196) |
| Increase in contract liabilities | **598** | – |
| **NET CASH USED IN OPERATING ACTIVITIES** | **(26,274)** | (39,595) |
| **INVESTING ACTIVITIES** | | |
| Interest received | **923** | 951 |
| Purchase of property, plant and equipment | **(2,507)** | (1,888) |
| Proceeds from disposal of property, plant and equipment | **192** | 15 |
| Loan advance to an associate | **(66,263)** | – |
| Placement of pledged bank deposits | **(2,378)** | (12,970) |
| **NET CASH USED IN INVESTING ACTIVITIES** | **(70,033)** | (13,892) |
| **FINANCING ACTIVITIES** | | |
| Interest paid | **(6,765)** | (6,077) |
| Repayment of obligations under finance leases | **(594)** | (1,853) |
| New bank borrowing raised | **65,000** | – |
| **NET CASH FROM (USED IN) FINANCING ACTIVITIES** | **57,641** | (7,930) |
| **NET DECREASE IN CASH AND CASH EQUIVALENTS** | **(38,666)** | (61,417) |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR** | **94,792** | 156,060 |
| **EFFECT OF FOREIGN EXCHANGE RATE CHANGES** | **(228)** | 149 |
| **CASH AND CASH EQUIVALENTS AT END OF THE YEAR, represented by bank balances and cash** | **55,898** | 94,792 |

## 1. GENERAL

Daido Group Limited (the "Company") is incorporated in Bermuda as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information section to the annual report.

The principal activities of the Company and its subsidiaries (the "Group") are provision of cold storage and related services, trading of food and beverage in the People's Republic of China (the "PRC"), money lending services and investment holding.

The consolidated financial statements are presented in Hong Kong dollars, which is also the functional currency of the Company.

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

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

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

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

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

### 2.1 HKFRS 15 *Revenue from Contracts with Customers*

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

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1st January, 2018. Any difference at the date of initial application is recognised in the opening accumulated losses and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the standard retrospectively only to contracts that are not completed at 1st January, 2018 and has used the practical expedient for all contract modifications that occurred before the date of initial application, the aggregate effect of all of the modifications was reflected at the date of initial application. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 *Revenue* and HKAS 11 *Construction Contracts* and the related interpretations.

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

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

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

The Group recognises revenue from the following major sources which arise from contracts with customers:

- Cold storage
- Loading and handling services
- Logistic and packing services
- Manufacturing and trading of ice
- Trading of food and beverage

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

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

| | Carrying amounts previously reported at 31st December, 2017<br>HK$'000 | Reclassification<br>HK$'000<br>(Note) | Carrying amounts under HKFRS 15 at 1st January, 2018<br>HK$'000 |
|---|---|---|---|
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | 28,884 | (6,932) | 21,952 |
| Contract liabilities | – | 6,932 | 6,932 |

Note: At the date of initial application on 1st January, 2018, included in the total trade and other payables was an amount of HK$6,932,000 related to advance billings to customers for cold storage services. This balance is reclassified to contract liabilities upon application of HKFRS 15.

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

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

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

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

**Impact on the consolidated statement of financial position**

| | As reported<br>HK$'000 | Adjustments<br>HK$'000<br>(Note) | Amounts without application of HKFRS 15<br>HK$'000 |
|---|---|---|---|
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | 29,365 | 7,530 | 36,895 |
| Contract liabilities | 7,530 | (7,530) | – |

**Impact on the consolidated statement of cash flows**

| | As reported<br>HK$'000 | Adjustments<br>HK$'000<br>(Note) | Amounts without application of HKFRS 15<br>HK$'000 |
|---|---|---|---|
| OPERATING ACTIVITIES | | | |
| Increase in trade and other payables | 7,692 | 598 | 8,290 |
| Increase in contract liabilities | 598 | (598) | – |

Note: As at 31st December, 2018, advance billings to customers for cold storage services but revenue has not recognised as performance obligations has not yet satisfied before the year ended 31st December, 2018, amounted to HK$7,530,000, previously included in trade and other payables, were reclassified to contract liabilities.

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

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

#### 2.2 HKFRS 9 *Financial Instruments*

In the current year, the Group has applied HKFRS 9 *Financial Instruments* and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for (1) the classification and measurement of financial assets and financial liabilities, and (2) expected credit losses ("ECL") for financial assets.

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

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

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

***Summary of effects arising from initial application of HKFRS 9***

The table below illustrates the classification and measurement of financial assets and financial liabilities and other items subject to ECL under HKFRS 9 and HKAS 39 at the date of initial application, 1st January, 2018. Line items that were not affected by the changes have not been included.

| | Carrying amounts previously reported at 31st December, 2017 HK$'000 | Reclassification HK$'000 | Remeasurement HK$'000 | Carrying amounts under HKFRS 9 at 1st January, 2018 HK$'000 |
|---|---|---|---|---|
| Available-for-sale investment – HKAS 39 (2.2(a)) | 38,502 | (38,502) | – | – |
| Equity instrument at FVTOCI – HKFRS 9 (2.2(a)) | – | 38,502 | 540 | 39,042 |
| FVTOCI reserve – HKFRS 9 (2.2(a)) | – | 110,618 | (540) | 110,078 |
| Accumulated losses – HKFRS 9 (2.2(a)) | 218,010 | (110,618) | – | 107,392 |
| Held for trading investments – HKAS 39 (2.2(b)) | 902 | (902) | – | – |
| Financial assets at FVTPL – HKFRS 9 (2.2(b)) | – | 902 | – | 902 |

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

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

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

***Summary of effects arising from initial application of HKFRS 9 (continued)***

(a) Available-for-sale ("AFS") investment

The Group elected to present in other comprehensive income for the fair value changes of all its equity investments previously classified as available-for-sale. This investment is not held for trading and not expected to be sold in the foreseeable future. At the date of initial application of HKFRS 9, HK$38,502,000 were reclassified from AFS investment to equity instrument at FVTOCI, of which related to unquoted equity investment previously measured at cost less impairment under HKAS 39. The impairment loss of HK$110,618,000 relating to this unquoted equity investment previously carried at cost less impairment were transferred from accumulated losses to FVTOCI reserve and the fair value gain of HK$540,000 relating to this investment were adjusted to equity instrument at FVTOCI and FVTOCI reserve as at 1st January, 2018.

(b) Held for trading investments

The Group has reassessed its investments in equity securities classified as held for trading under HKAS 39 as if the Group had purchased these investments at the date of initial application. Based on the facts and circumstances as at the date of initial application, HK$902,000 of the Group's investments were no longer held for trading and the Group did not elect to designate the equity securities at FVTOCI. The investment continued to be measured at FVTPL and classified as financial assets at FVTPL.

There was no impact on the amounts recognised in relation to these assets from the application of HKFRS 9.

(c) Impairment under ECL model

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables from contracts. Except for those which had been determined as credit impaired under HKAS 39, trade receivables with significant balances have been assessed individually, the remaining balances are grouped based on past due analysis.

The Group has estimated the expected loss rates for the trade receivables as at 1st January, 2018 based on the assessment by the directors of the Company. If the expected credit loss model were to be applied by the Group as at 1st January, 2018, there would be no material impact on the accumulated amount of impairment loss to be recognised by the Group as compared to the accumulated amount recognised under HKAS 39.

ECL for other financial assets at amortised cost including loan and other receivables, amount due from non-controlling interests of a subsidiary, loan to an associate, pledge bank deposits, and bank balances that are considered, with reference to internal credit rating, as low risk are assessed under 12-month ECL ("12m ECL") while other financial assets that are considered as doubtful or loss are assessed under lifetime ECL.

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

### New and amendments to HKFRSs in issue but not yet effective

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

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

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

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

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

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

**HKFRS 16 *Leases***

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

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by customer.

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

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

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

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

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31st December, 2018, the Group has non-cancellable operating lease commitments of HK$344,053,000 as disclosed in note 35. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid of HK$25,812,000 as rights under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost and such adjustments are considered as additional lease payments. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right-of-use assets.

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

## 3. SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

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

The principal accounting policies are set out below.

### Basis of consolidation

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

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Basis of consolidation (continued)

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

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

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

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

**Changes in the Group's ownership interests in existing subsidiaries**

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary and non-controlling interests, (if any) are derecognised. A gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets (including goodwill), and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs).

### Business combinations

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

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Goodwill

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

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

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

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

### Investments in associates

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

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Investments in associates (continued)

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

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

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

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

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

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

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

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;

- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or

- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

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

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

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

For cold storage service, as the customers simultaneously receives and consumes the benefit provided by the Group's performance as the Group performs, the Group recognises the service fee received or receivable from the customers as its revenue over time using output method, which is to recognise revenue on the basis of direct measurements of the value of the goods or services transferred to the customer to date relative to the remaining goods or services promised under the contract, that best depict the Group's performance in transferring control of goods or services.

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

For manufacturing and trading of ice as well as trading of food and beverage, revenue is recognised at a point in time when the customer obtains the control of the goods, the Group has present right to payment and the collection of the consideration is probable.

### Revenue recognition (prior to 1st January, 2018)

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

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Revenue recognition (prior to 1st January, 2018) (continued)

Storage income is recognised on a time proportion basis over the period in which storage services are provided.

Logistics service income and related services are recognised when services are provided.

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

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

### Leasing

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

**The Group as lessee**

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

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

Operating lease payments are recognised as an expense on a straight-line basis over the lease terms, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Foreign currencies

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

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

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributed to non-controlling interests as appropriate).

On the disposal of a foreign operation (i.e. 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, all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

### Borrowing costs

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

### Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received. Government grants are recognised in profit or loss in the period which they are receivable.

### Retirement benefit costs

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

### Short-term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense.

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Taxation

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

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

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

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

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

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

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Property, plant and equipment

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

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

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

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

### Impairment losses on tangible assets

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

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

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

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Inventories

Inventories comprising food and beverage are stated at the lower of cost and net realisable value. Costs of inventories are determined on a first-in, first-out method. Net realisable value represents the estimated selling price for inventories less all estimated costs necessary to make the sale.

### Financial instruments

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

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

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

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

**Financial assets**

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

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

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments (continued)

**Financial assets** (continued)

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

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

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and
- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL.

A financial asset is classified as held for trading if:

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

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

(i) Amortised cost and interest income

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

(ii) Equity instruments designated as at FVTOCI

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

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments (continued)

**Financial assets** (continued)

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

(iii) Financial assets at FVTPL

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

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

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

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade and other receivables, loan receivables, pledged bank deposits, loan to an associate, amount due from non-controlling interests of a subsidiary, and bank balances and cash). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

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

The Group always recognises lifetime ECL for trade receivables. The ECL on these assets are assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings.

The ECL on loan receivables and all other instruments are assessed individually. Loan receivables and all other instruments that are considered, with reference to internal credit rating, as low risk are assessed under 12m ECL while loan receivables and all other instruments that are considered as doubtful or loss are assessed under lifetime ECL.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments (continued)

**Financial assets** (continued)

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

(i) Significant increase in credit risk

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

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

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

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

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

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

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

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

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

(ii) Definition of default

For internal credit risk management, the Group considers an event of default occurs when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, including the Group, in full.

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments (continued)

**Financial assets** (continued)

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

(iii) Credit-impaired financial assets

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

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

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

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

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

(e) the disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

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

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments (continued)

**Financial assets** (continued)

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

(v) Measurement and recognition of ECL

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

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

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments (i.e. the Group's trade and other receivables are each assessed as a separate group. Loan receivables and loan to an associate are assessed for expected credit losses on an individual basis);

- Past-due status;

- Nature, size and industry of debtors; and

- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

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

The Group recognises an impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables, where the corresponding adjustment is recognised through a loss allowance account.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments (continued)

**Financial assets** (continued)

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

Financial assets are classified into the following specified categories: financial assets at FVTPL, held-to-maturity investments, AFS financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

*Financial assets at FVTPL*

Financial assets are classified as at FVTPL when the financial asset is held for trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

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

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets and is included in the “other gains and losses” line item.

*AFS financial assets*

AFS financial assets are non-derivative financial assets that are either designated as AFS or are not classified as financial assets at FVTPL, held-to-maturity investments, or loans and receivables.

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

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period (see the accounting policy in respect of impairment of financial assets below).

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments (continued)

**Financial assets** (continued)

*Loans and receivables*

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

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

*Impairment of financial assets (before application of HKFRS 9 on 1st January, 2018)*

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

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

For all other financial assets, objective evidence of impairment could include:

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

Objective evidence of impairment for receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the receivables past the average credit period, observable changes in national or local economic conditions that correlate with default on receivables.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments (continued)

**Financial assets** (continued)

*Impairment of financial assets (before application of HKFRS 9 on 1st January, 2018)* (continued)

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

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

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

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

Impairment losses on AFS equity investments carried at cost will not be reversed through profit or loss in subsequent periods.

*Derecognition of financial assets*

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

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

On derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI upon application of HKFRS 9, the cumulative gain or loss previously accumulated in the FVTOCI reserve is not reclassified to profit or loss, but is transferred to accumulated losses.

On derecognition of an AFS financial asset, the cumulative gain or loss previously accumulated in the revaluation reserve is reclassified to profit or loss.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments (continued)

**Financial liabilities and equity instruments**

*Classification of debt and equity*

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

*Equity instruments*

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

*Financial liabilities*

All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL.

*Bonds contain liability component and early redemption option derivative*

At the date of issue, early redemption option that is closely related to the liability component is not separately accounted for and recognised at fair value at initial recognition. In subsequent periods, bonds are carried at amortised cost using the effective interest method. Transaction costs are included in the carrying amount of the bonds and amortised over the period of the bonds using the effective interest method.

*Financial liabilities at amortised cost*

Financial liabilities (including trade and other payables, amount due to an investee, bank borrowing, and bonds) are subsequently measured at amortised cost, using the effective interest method.

*Derecognition of financial liabilities*

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

**Derivative financial instruments**

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss.

Generally, multiple embedded derivatives in a single instrument that are separated from the host contracts are treated as a single compound embedded derivative unless those derivatives relate to different risk exposures and are readily separable and independent of each other.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### Financial instruments (continued)

**Derivative financial instruments** (continued)

*Embedded derivatives (under HKFRS 9 since 1st January, 2018)*

Derivatives embedded in hybrid contracts that contain financial asset hosts within the scope of HKFRS 9 are not separated. The entire hybrid contract is classified and subsequently measured in its entirety as either amortised cost or fair value as appropriate.

Derivatives embedded in non-derivative host contracts that are not financial assets within the scope of HKFRS 9 are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

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

### Estimated impairment of trade receivables

**Provision of ECL upon application of HKFRS 9 in accordance with transitions in note 2**

Trade receivables are assessed for ECL under lifetime ECL model. The management of the Group estimates the amount of ECL for trade receivables with significant balances individually whereas the remaining balance of trade receivables are assessed based on provision matrix by grouping various trade receivables that have similar risk exposure after considering internal credit ratings, ageing, repayment history and/or past due status and forward-looking information of respective trade receivables to calculate ECL. The measurement of ECL is based on the Group's historical default rates taking into consideration the historical data adjusted by forward-looking information that is available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered.

The provision of ECL is sensitive to changes in estimates. The information about the ECL of the Group's trade receivables are disclosed in note 38.

**Estimated impairment before application of HKFRS 9 on 1st January, 2018**

The Group has designed controls over the acceptance of new customers and performed annual review of existing trade receivables with reference to the business relationships with the customers and the credit quality of the customers. In determining the recoverability of trade receivables, the Group considers the credit quality of the trade receivables with reference to the credit history including default or delay in payment, historical settlements and settlements of trade receivables subsequent to the end of the reporting period and the ageing analysis of the trade receivables. When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. Where the actual outcome or expectation of the recoverability of trade receivables is different from the original estimate, such difference will impact the carrying value of trade receivables and allowance for doubtful debts or write-back in the period in which such estimate has changed. As at 31st December, 2017, the carrying amount of trade receivables was HK$53,018,000 (net of allowance for doubtful debts of HK$549,000).

## 4. KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

### Estimate impairment of loan receivables

**Provision of ECL upon application of HKFRS 9 in accordance with transitions in note 2**

Loan receivables are assessed for ECL individually. Loan receivables that are considered, with reference to internal credit rating, as low risk are assessed under 12m ECL while loan receivables that are considered as doubtful or loss are assessed under lifetime ECL. The management of Group estimates the amount of ECL based on the Group's historical default rates on these loan receivables by taking into consideration the Group's internal credit ratings of loan receivables, ageing, repayment history and/or past due status of respective loan receivables. Estimated loss rates are based on historical observed default rates over the expected life of the loan receivables and are adjusted by forward-looking information that is available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered.

The provision of ECL is sensitive to changes in estimates. The information about the ECL of the Group's loan receivables are disclosed in note 38.

**Estimated impairment before application of HKFRS 9 on 1st January, 2018**

The Group has designed controls over the grant of new loans to borrowers and performed annual review of existing loan receivables with reference to the credit quality of the borrowers. In determining the recoverability of loan receivables, the Group considers the credit quality of the loan receivables with reference to the credit history of the borrowers including default or delay in payment, historical settlements and settlements of loan interests of the loan receivables subsequent to the end of the reporting period, the financial background of the borrowers and the available financial information of the borrowers at the end of each reporting period. When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. Where the actual outcome or expectation of the recoverability of loan receivables is different from the original estimate, such difference will impact the carrying value of loan receivables and allowance for doubtful debts or write-back in the period in which such estimate has changed. As at 31st December, 2017, the carrying amount of loan receivables is HK$63,580,000. There is no allowance or impairment loss recognised for the year.

### Estimated impairment of property, plant and equipment

The management conducted a review and determined that any indication of impairment by considering the recoverable amount of the individual property, plant and equipment or the cash-generating units to which the property, plant and equipment are allocated. The amount of impairment loss is measured as the difference between the carrying amount of the relevant property, plant and equipment or the cash-generating unit and their respective recoverable amount. The recoverable amount is higher of value in use and fair value less costs of disposal. The calculation of value in use required the management of the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows or fair value less costs of disposal are less or more than expected, or changes in facts and circumstances which result in revision of the estimated future cash flows for the purpose of determining the value in use, further impairment loss or reversal of impairment loss previously made may arise. As at 31st December, 2018, the carrying amount of property, plant and equipment is HK$4,876,000 (2017: HK$7,578,000). Details are set out in note 14.

### Fair values measurement of derivative financial instruments

During the year ended 31st December, 2018, the Group has entered into an investment agreement with two investors and granted one of the investors with two exit options in accordance with the agreement. The exit options granted to the investor are considered as derivative financial instruments and initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The fair values of the derivative financial instruments are being determined based on unobserved inputs using valuation techniques. Judgement and estimation are required in establishing the relevant valuation techniques and the relevant inputs thereof. Changes in assumptions relating to these factors could affect the reported fair values of these instruments. As at 31st December, 2018, the Group's derivative financial instruments amounting to HK$6,478,000 are measured at fair values. See notes 29 and 38(c) for further disclosures.

## 5. REVENUE AND SEGMENT INFORMATION

Information reported to the executive directors of the Company, being the chief operating decision makers, for the purposes of resource allocation and assessment of segment performance focuses on the types of services provided. No operating segments identified by the chief operating decision makers have been aggregated in arriving at the reportable segments of the Group.

Specifically, the Group's reportable segments under HKFRS 8 *Operating Segments* are as follows:

1. Cold storage and related services in Hong Kong ("Cold storage and related services")

2. Trading of food and beverage in the PRC ("Trading of food and beverage")

3. Money lending services in Hong Kong ("Money lending services")

### Segments revenues and results

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

**For the year ended 31st December, 2018**

| | Cold storage and related services HK$'000 | Trading of food and beverage HK$'000 | Money lending services HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| Revenue | 224,567 | 75,076 | 9,603 | 309,246 |
| Segment (loss) profit | (12,029) | (13,053) | 2,626 | (22,456) |
| Unallocated income | | | | 1,039 |
| Unallocated expenses | | | | (15,072) |
| Change in fair value of financial assets at FVTPL | | | | (171) |
| Finance costs | | | | (1,274) |
| Loss before tax | | | | (37,934) |

## 5. REVENUE AND SEGMENT INFORMATION (continued)

### Segments revenues and results (continued)

**For the year ended 31st December, 2017**

| | Cold storage and related services HK$'000 | Trading of food and beverage HK$'000 | Money lending services HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| Revenue | 210,350 | 58,933 | 6,210 | 275,493 |
| Segment (loss) profit | (13,968) | (8,260) | 1,860 | (20,368) |
| Unallocated income | | | | 996 |
| Unallocated expenses | | | | (13,413) |
| Change in fair value of held for trading investments | | | | 200 |
| Finance costs | | | | (2,766) |
| Loss before tax | | | | (35,351) |

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment profit (loss) represents the profit earned by (loss from) each segment without allocation of other income, central administration costs that mainly include partly auditor's remuneration, rental expenses and directors' remuneration, change in fair value of held for trading investments, change in fair value of financial assets at FVTPL and certain finance costs. This is the measure reported to the chief operating decision makers for the purposes of resource allocation and performance assessment.

## 5. REVENUE AND SEGMENT INFORMATION (continued)

### Segment assets and liabilities

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

| | **2018** **HK$'000** | 2017 HK$'000 |
|---|---|---|
| **SEGMENT ASSETS** | | |
| Cold storage and related services | **146,447** | 77,071 |
| Trading of food and beverage | **16,075** | 12,985 |
| Money lending services | **68,546** | 63,661 |
| Total segment assets | **231,068** | 153,717 |
| Unallocated assets | **164,413** | 249,661 |
| Consolidated assets | **395,481** | 403,378 |
| **SEGMENT LIABILITIES** | | |
| Cold storage and related services | **91,408** | 16,457 |
| Trading of food and beverage | **10,851** | 8,022 |
| Money lending services | **71,309** | 65,796 |
| Total segment liabilities | **173,568** | 90,275 |
| Unallocated liabilities | **35,096** | 78,536 |
| Consolidated liabilities | **208,664** | 168,811 |

For the purposes of monitoring segment performance and allocating resources between segments:

- all assets are allocated to operating segments other than financial assets at FVTPL, equity instrument at FVTOCI, available-for-sale investment, amount due from non-controlling interests of a subsidiary, held for trading investments, pledged bank deposits, certain bank balances and cash, certain property, plant and equipment, and certain other receivables. Goodwill is allocated to cold storage and related services as described in note 15; and

- all liabilities are allocated to operating segments other than amount due to an investee, certain obligations under finance leases, bonds and other payables.

## 5. REVENUE AND SEGMENT INFORMATION (continued)

### Other segment information

**2018**

| | Cold storage and related services HK$'000 | Trading of food and beverage HK$'000 | Money lending services HK$'000 | Segments total HK$'000 | Unallocated HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| Amounts included in the measure of segment profit or loss or segment assets: | | | | | | |
| Additions to non-current assets (note) | 2,079 | 428 | – | 2,507 | – | 2,507 |
| Change in fair value of derivative financial instruments | 6,478 | – | – | 6,478 | – | 6,478 |
| Depreciation | 4,310 | 606 | – | 4,916 | 292 | 5,208 |
| Gain on disposal of property, plant and equipment | 191 | – | – | 191 | – | 191 |
| Impairment loss recognised on loan receivables | – | – | 849 | 849 | – | 849 |
| Impairment loss recognised on trade receivables | 500 | 6 | – | 506 | – | 506 |
| Imputed interest income on loan to an associate | 281 | – | – | 281 | – | 281 |
| Share of loss of an associate | 8,021 | – | – | 8,021 | – | 8,021 |

**2017**

| | Cold storage and related services HK$'000 | Trading of food and beverage HK$'000 | Money lending services HK$'000 | Segments total HK$'000 | Unallocated HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| Amounts included in the measure of segment profit or loss or segment assets: | | | | | | |
| Additions to non-current assets (note) | 1,585 | 235 | – | 1,820 | 68 | 1,888 |
| Depreciation | 4,532 | 35 | – | 4,567 | 282 | 4,849 |
| Loss on disposal of property, plant and equipment | 1 | – | – | 1 | – | 1 |
| Impairment loss recognised on trade receivables | – | 36 | – | 36 | – | 36 |
| Impairment loss recognised on goodwill | 8,513 | – | – | 8,513 | – | 8,513 |

Note: Additions to non-current assets represented additions to property, plant and equipment.

## 5. REVENUE AND SEGMENT INFORMATION (continued)

### Other segment information (continued)

Amount regularly provided to the chief operating decision makers but not included in the measure of segment profit or loss or segment assets:

| | Unallocated | |
|---|---|---|
| | **2018** | 2017 |
| | **HK$'000** | HK$'000 |
| Interest income | **972** | 951 |
| Interest expense | **(1,274)** | (2,766) |
| Change in fair value of financial assets at FVTPL | **(171)** | – |
| Change in fair value of held for trading investments | **–** | 200 |

### Geographical information

The Group's operations are located in Hong Kong and the PRC.

Information about of the Group's non-current assets by geographical location of the assets (excluding loan to an associate, financial assets at FVTPL, equity instrument at FVTOCI, available-for-sale investment, pledged bank deposits and loan receivables) are set out below:

| | **2018** | 2017 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Hong Kong | **41,405** | 32,299 |
| The PRC | **25** | 385 |
| | **41,430** | 32,684 |

### Revenue from major products and services

The following is an analysis of the Group's revenue from its major products and services:

| | **2018** | 2017 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Cold storage and related services: | | |
| Revenue from cold storage and logistic services | **224,371** | 209,942 |
| Sales of ice | **196** | 408 |
| Sale of goods from trading of food and beverage | **75,076** | 58,933 |
| Interest income from money lending services | **9,603** | 6,210 |
| | **309,246** | 275,493 |

## 5. REVENUE AND SEGMENT INFORMATION (continued)

### Disaggregation of revenue

| | For the year ended 31st December, 2018 | |
|---|---|---|
| | **Cold storage and related service segment HK$'000** | Trading of food and beverage segment HK$'000 |
| **Types of goods or services** | | |
| Revenue from cold storage and related services | | |
| Cold storage | **171,042** | – |
| Loading and handling services | **9,522** | – |
| Logistic and packing services | **43,807** | – |
| Manufacturing and trading of ice | **196** | – |
| | **224,567** | – |
| Revenue from trading of food and beverage | **–** | 75,076 |
| **Total** | **224,567** | 75,076 |
| **Geographical markets** | | |
| Mainland China | **–** | 75,076 |
| Hong Kong | **224,567** | – |
| **Total** | **224,567** | 75,076 |
| **Timing of revenue recognition** | | |
| A point in time | **196** | 75,076 |
| Over time | **224,371** | – |
| **Total** | **224,567** | 75,076 |

## 5. REVENUE AND SEGMENT INFORMATION (continued)

### Performance obligations for contracts with customers

***Cold storage, loading and handling, and logistic and packing services***

Cold storage, loading and handling, and logistic and packing services are considered to be a distinct service as they are both regularly supplied by the Group to other customers on a stand-alone basis and is available for customers from other providers in the market. Revenue relating to these services is recognised over time. The transaction price allocated to these services is recognised as a contract liability at the time of the initial sales transaction and is released on a straight line basis over the period of service.

With the provision these services are at period of one year or less, as permitted under HKFRS 15, the transaction price allocation to the unsatisfied contracts is not disclosed.

***Manufacturing and trade of ice and trading of food and beverage***

The Group sells ice and food and beverage directly to customers. Revenue is recognised when control of the goods has transferred, being when the goods have been delivered to the customers' specific location (delivery). Following delivery, the customer has full discretion over the manner of distribution and price to sell the goods, has the primary responsibility when on selling the goods and bears the risks of obsolescence and loss in relation to the goods. The normal credit term is 30 to 60 days upon delivery.

### Information about major customers

Revenue from customer from cold storage and related services contributing over 10% of the total revenue of the Group is as follows:

| | **2018 HK$'000** | 2017 HK$'000 |
|---|---|---|
| Customer A | **34,683** | 35,645 |

## 6. OTHER INCOME

| | **2018 HK$'000** | 2017 HK$'000 |
|---|---|---|
| Bank interest income | **972** | 951 |
| Government subsidy | **338** | – |
| Imputed interest income on loan to an associate | **281** | – |
| Sundry income | **195** | 306 |
| | **1,786** | 1,257 |

## 7. OTHER GAINS AND LOSSES

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Change in fair value of derivative financial instruments | **(6,478)** | – |
| Change in fair value of financial assets at FVTPL | **(171)** | – |
| Change in fair value of held for trading investments | **–** | 200 |
| Gain (loss) on disposal of property, plant and equipment | **191** | (1) |
| Impairment loss on goodwill | **–** | (8,513) |
| | **(6,458)** | (8,314) |

## 8. FINANCE COSTS

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Interest on bonds | **6,000** | 6,000 |
| Interest on obligations under finance leases | **17** | 77 |
| Interest on bank borrowing | **748** | – |
| | **6,765** | 6,077 |

## 9. TAXATION

On 21st 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 28th March, 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%.

The directors of the Company considered the amount involved upon implementation of the two-tiered profits tax rates regime as insignificant to the consolidated financial statements. Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

Under the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for both years.

No provision for Hong Kong Profits tax and EIT is required as the individual companies comprising the Group either incurred a loss or had tax losses to offset the assessable profit.

## 9. TAXATION (continued)

Taxation for the year can be reconciled to the loss before tax per the consolidated statement of profit or loss and other comprehensive income as follows:

| | **2018** **HK$'000** | 2017 HK$'000 |
|---|---|---|
| Loss before tax | **(37,934)** | (35,351) |
| Tax at the Hong Kong Profits Tax rate of 16.5% | **(6,259)** | (5,833) |
| Effect of share of results of an associate | **1,323** | – |
| Tax effect of expenses not deductible for tax purpose | **1,299** | 1,450 |
| Tax effect of income not taxable for tax purpose | **(230)** | (231) |
| Tax effect of tax losses not recognised | **5,744** | 5,941 |
| Utilisation of tax losses previously not recognised | **(869)** | (666) |
| Tax effect of deductible temporary differences not recognised | **42** | 35 |
| Effect of different tax rates of subsidiaries operating in other jurisdictions | **(1,050)** | (696) |
| Taxation for the year | **–** | – |

Details of deferred taxation are set out in note 33.

## 10. LOSS FOR THE YEAR

| | **2018** **HK$'000** | 2017 HK$'000 |
|---|---|---|
| Loss for the year has been arrived at after charging (crediting): | | |
| Auditor's remuneration | | |
| – audit service | **2,210** | 950 |
| – non-audit service | **480** | 230 |
| Cost of inventories recognised as expenses | **54,780** | 42,620 |
| Depreciation for property, plant and equipment | **5,208** | 4,849 |
| Net foreign exchange loss (gain) | **34** | (102) |
| Minimum lease payments for operating leases in respect of rented premises | **103,035** | 101,091 |
| Staff costs, including directors' remuneration | | |
| – salaries and other benefits costs | **73,972** | 69,500 |
| – contributions to retirement benefits schemes | **4,171** | 4,119 |

## 11. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

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

The emoluments paid or payable to each of the 7 (2017: 7) directors were as follows:

| | Executive directors (note 1) | | | Non-executive director (note 2) | Independent non-executive directors (note 3) | | | |
|---|---|---|---|---|---|---|---|---|
| | Choy Kai Sing HK$'000 | Ho Hon Chung, Ivan HK$'000 | Au Tat Wai HK$'000 | Fung Wa Ko HK$'000 | Leung Chi Hung HK$'000 | Tse Yuen Ming HK$'000 | Fung Siu Kit Ronny HK$'000 | Total 2018 HK$'000 |
| **Fees** | **132** | **132** | **72** | **120** | **120** | **120** | **120** | **816** |
| **Other emoluments** | | | | | | | | |
| **Salaries and other benefits** | **1,314** | **1,268** | **1,341** | **–** | **–** | **–** | **–** | **3,923** |
| **Performance related bonuses (note 4)** | **202** | **97** | **206** | **–** | **–** | **–** | **–** | **505** |
| **Contributions to retirement benefits scheme** | **106** | **21** | **75** | **–** | **–** | **–** | **–** | **202** |
| **Total emoluments** | **1,754** | **1,518** | **1,694** | **120** | **120** | **120** | **120** | **5,446** |

| | Executive directors (note 1) | | | Non-executive director (note 2) | Independent non-executive directors (note 3) | | | |
|---|---|---|---|---|---|---|---|---|
| | Choy Kai Sing HK$'000 | Ho Hon Chung, Ivan HK$'000 | Au Tat Wai HK$'000 | Fung Wa Ko HK$'000 | Leung Chi Hung HK$'000 | Tse Yuen Ming HK$'000 | Fung Siu Kit Ronny HK$'000 | Total 2017 HK$'000 |
| Fees | 132 | 132 | 72 | 120 | 120 | 120 | 120 | 816 |
| Other emoluments | | | | | | | | |
| Salaries and other benefits | 1,315 | 1,207 | 1,342 | – | – | – | – | 3,864 |
| Performance related bonuses (note 4) | 600 | 600 | 600 | – | – | – | – | 1,800 |
| Contributions to retirement benefits scheme | 106 | 22 | 69 | – | – | – | – | 197 |
| Total emoluments | 2,153 | 1,961 | 2,083 | 120 | 120 | 120 | 120 | 6,677 |

Note 1: The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group.

Note 2: The non-executive director's emoluments shown above were for his services as directors of the Company.

Note 3: The independent non-executive directors' emoluments shown above were for their services as directors of the Company.

Note 4: Certain executive directors of the Company are entitled to bonus payments which are determined based on the financial performance of the Group in prior year.

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

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

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

Neither the Chief Executive nor any of the directors waived any emoluments in the years ended 31st December, 2018 and 31st December, 2017.

### (b) Employees' emoluments

Of the five individuals with the highest emoluments in the Group, three (2017: three) were directors of the Company whose emoluments are included in the disclosures in the table above. The emoluments of the remaining two (2017: two) individuals were as follows:

| | **2018 HK$'000** | 2017 HK$'000 |
|---|---|---|
| Salaries and other benefits | **1,671** | 1,586 |
| Contributions to retirement benefits scheme | **36** | 36 |
| | **1,707** | 1,622 |

Their emoluments were within the following band:

| | **2018 Number of employees** | 2017 Number of employees |
|---|---|---|
| Nil to HK$1,000,000 | **2** | 2 |

## 12. DIVIDEND

No interim dividend was paid during the year (2017: Nil), nor has any dividend been proposed since the end of the reporting period (2017: Nil).

## 13. LOSS PER SHARE

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

| | **2018**<br>**HK$'000** | 2017<br>HK$'000 |
|---|---|---|
| Loss for the purpose of basic loss per share, attributable to owners of the Company | **37,934** | 35,351 |

| | **'000** | '000 |
|---|---|---|
| *Number of shares* | | |
| Weighted average number of ordinary shares for the purpose of basic loss per share | **2,432,304** | 2,432,304 |

No diluted loss per share is presented as there were no potential ordinary shares in issue for years ended 31st December, 2018 and 31st December, 2017.

## 14. PROPERTY, PLANT AND EQUIPMENT

| | Leasehold improvements HK$'000 | Furniture and fixtures HK$'000 | Motor vehicles HK$'000 | Plant and machinery and equipment HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| **COST** | | | | | |
| At 1st January, 2017 | 21,017 | 1,841 | 11,778 | 22,402 | 57,038 |
| Additions | – | 8 | 83 | 1,797 | 1,888 |
| Disposals | – | (2) | (58) | (944) | (1,004) |
| At 31st December, 2017 | 21,017 | 1,847 | 11,803 | 23,255 | 57,922 |
| Additions | – | 35 | 413 | 2,059 | 2,507 |
| Disposals | – | – | (1,049) | (1,374) | (2,423) |
| At 31st December, 2018 | 21,017 | 1,882 | 11,167 | 23,940 | 58,006 |
| **DEPRECIATION AND IMPAIRMENT** | | | | | |
| At 1st January, 2017 | 19,369 | 1,783 | 6,240 | 19,091 | 46,483 |
| Provided for the year | 890 | 57 | 2,356 | 1,546 | 4,849 |
| Eliminated on disposals | – | (2) | (42) | (944) | (988) |
| At 31st December, 2017 | 20,259 | 1,838 | 8,554 | 19,693 | 50,344 |
| Provided for the year | 644 | 26 | 2,278 | 2,260 | 5,208 |
| Eliminated on disposals | – | – | (1,048) | (1,374) | (2,422) |
| At 31st December, 2018 | 20,903 | 1,864 | 9,784 | 20,579 | 53,130 |
| **CARRYING VALUES** | | | | | |
| At 31st December, 2018 | 114 | 18 | 1,383 | 3,361 | 4,876 |
| At 31st December, 2017 | 758 | 9 | 3,249 | 3,562 | 7,578 |

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

| | |
|---|---|
| Leasehold improvements | Over the shorter of terms of the leases, or 10% |
| Furniture and fixtures | 10% – $33^1/_3$% |
| Motor vehicles | 20% – $33^1/_3$% |
| Plant and machinery and equipment | 15% – 50% |

The carrying value of motor vehicles includes an amount of HK$644,000 (2017: HK$2,107,000) in respect of assets held under finance leases.

## 15. GOODWILL

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| **COST** | | |
| At 1st January and at 31st December | **14,981** | 14,981 |
| **IMPAIRMENT** | | |
| At 1st January | **14,913** | 6,400 |
| Impairment loss recognised | – | 8,513 |
| At 31st December | **14,913** | 14,913 |
| **CARRYING VALUES** | | |
| At 31st December | **68** | 68 |

During the year ended 31st December, 2017, the Group recognised an impairment loss on goodwill amounting to HK$8,513,000 in the consolidated statement of profit or loss and other comprehensive income. Goodwill arising from acquisition of subsidiaries in cold storage and related services amounting to HK$14,913,000 in 2006 was allocated as an individual cash-generating unit ("CGU"), which comprises of two wholly-owned subsidiaries of the Company engaged in such services, of which accumulated impairment loss of HK$14,913,000 was recognised.

As at 31st December, 2017, the recoverable amount of the CGU was determined based on a value in use calculation. That calculation used cash flow projections based on financial budgets approved by the management covering a 5-year period, and discount rate of 13.55% per annum as derived by an independent qualified professional valuer. The cash flows beyond 5-year period were extrapolated using a zero growth rate. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted revenue and gross margin, such estimation was based on the CGU's past performance and the management's expectations for the market development.

## 16. INTEREST IN AN ASSOCIATE/LOAN TO AN ASSOCIATE

| | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|
| Cost of investment in an associate | –* | – |
| Fair value adjustment on non-current interest-free loan to an associate | 19,019 | – |
| Share of post-acquisition loss and other comprehensive expense | (8,021) | – |
| | 10,998 | – |
| Loan to an associate | 47,525 | – |

* Less than HK$1,000

| Name of associate | Country of incorporation/principal place of business | Proportion of ownership interest held by the Group | | Proportion of voting rights held by the Group | | Principal activities |
|---|---|---|---|---|---|---|
| | | 2018 % | 2017 % | 2018 % | 2017 % | |
| **Direct associate** | | | | | | |
| Loving Peace International Limited ("Loving Peace") | British Virgin Islands/ Hong Kong | 30 | – | 20 | – | Investment holding |
| **Indirect associate** | | | | | | |
| Brilliant Cold Chain Solutions Limited ("BCCS") (formerly known as "Brightway Logistics Limited") | Hong Kong | 30 | – | 20 | – | Cold storage and related services |

The Group holds 30% of the issued share capital of Loving Peace. Under the investment agreement, the Group and the other two shareholders has the rights to nominate or appoint one and four directors to the board of directors of Loving Peace, respectively, in which the Group has 20% of the voting right of Loving Peace. The directors of the Company consider that the Group does have significant influence nor any power to exercise significant influence over the management and participate in the financial and operating decisions of Loving Peace, accordingly, the investment is classified as associate.

At 31st December, 2018, loan to an associate is unsecured, interest-free and is not expected to be repaid within one year after the reporting period. Fair value of the loan to the associate on initial recognition is determined based on effective interest rate of 7% per annum. The difference between the principal amount of the advance and its fair value determined on initial recognition amounting to HK$19,019,000, has been included in the investment cost in an associate as deemed contribution to the associate.

### Summarised financial information of an associate

Summarised financial information in respect of the Group's associate is set out below. The summarised financial information below represents amounts shown in the associate's financial statements prepared in accordance with HKFRSs.

The associate is accounted for using the equity method in these consolidated financial statements.

## 16. INTEREST IN AN ASSOCIATE/LOAN TO AN ASSOCIATE (continued)

### Summarised financial information of an associate

Consolidated financial information regarding Loving Peace and its subsidiary is set out below:

| | 2018<br>HK$'000 |
|---|---|
| Current assets | 3,624 |
| Non-current assets | 158,942 |
| Current liabilities | 23,176 |
| Non-current liabilities | 119,692 |
| Revenue | – |
| Loss and other comprehensive expense for the year | 26,736 |

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements:

| | 31/12/2018<br>HK$'000 |
|---|---|
| Net assets of the associate | 19,698 |
| Proportion of the Group's ownership interest in the associate | 30% |
| The Group's share of net assets of the associate | 5,909 |
| Other adjustment | 5,089 |
| Carrying amount of the Group's interest in the associate | 10,998 |

## 17. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT AND LOSS/HELD FOR TRADING INVESTMENTS

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| **Equity securities listed in Hong Kong** | | |
| Financial assets at FVTPL | | |
| – under HKFRS 9 | 731 | – |
| Held for trading investments | | |
| – under HKAS 39 | – | 902 |

## 18. EQUITY INSTRUMENT AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME/AVAILABLE-FOR-SALE INVESTMENT

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Equity instrument at FVTOCI under HKFRS 9 | – | N/A |
| Available-for-sale investment at cost under HKAS 39 | | |
| Unlisted shares | N/A | 149,120 |
| Less: Impairment | N/A | (110,618) |
| | N/A | 38,502 |

The Group, through a 75% owned subsidiary, holds 40% of the issued ordinary shares of Richbo Enterprises Limited ("Richbo"). The Group does not have any significant influence nor any power to exercise significant influence over the management and participate in the financial and operating decisions of Richbo because the Group has no right to nominate nor appoint any director to the board of directors of Richbo and accordingly, the investment is not classified as associate.

During the year ended 31st December, 2018, Richbo distributed dividend of HK$39,042,000 to the Group for recovery of its investment in Richbo. The amount was settled through the then outstanding amount due to the investee of the same amount.

At 31st December, 2018, the equity instrument in Richbo is measured at fair value. Since Richbo remains inactive and has insignificant amount of net asset value as at 31st December, 2018, the management considers that the fair value of the equity instrument is minimal.

## 19. LOAN RECEIVABLES

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Loan receivables | 69,313 | 63,580 |
| Less: Allowance for credit loss | (849) | – |
| | 68,464 | 63,580 |
| Secured loans | 65,973 | 36,227 |
| Unsecured loans | 2,491 | 27,353 |
| | 68,464 | 63,580 |
| Less: Amount due within one year and classified under current assets | (40,464) | (51,318) |
| Amount due after one year | 28,000 | 12,262 |

## 19. LOAN RECEIVABLES (continued)

The Group holds collateral of some property interests located in Hong Kong over secured loan receivables of HK$46,461,000 (2017: HK$36,227,000). The directors of the Company consider the exposure of credit risk of the secured receivables, after taking into account the value of the collateral, is insignificant, as the fair value of the collateral (property interests) is higher than the outstanding amount of these receivables at the end of the reporting period.

The Group holds collateral of some equity interest in unlisted companies for secured loan receivables of HK$19,512,000 (2017: nil). The remaining loan receivables are unsecured. The credit risk exposures of these secured and unsecured loan receivables are disclosed in note 38.

Secured loan receivables carry fixed-rate interests ranged from 11% to 24% (2017: 11% to 15%) per annum and with maturity ranging from 5 months to 4 years (2017: 1 year to 3 years). Unsecured loan receivables carry fixed-rate interests ranged from 11% to 12% (2017: ranged from 11% to 12%) per annum and with maturity ranged from 6 months to 2.5 years (2017: ranged from 6 months to 3 years). All amounts of principal will be receivable on respective maturity dates.

The maturity dates of the Group's fixed-rate loan receivables before net of allowance of credit loss are as follows:

| | **2018**<br>**HK$'000** | 2017<br>HK$'000 |
|---|---|---|
| Within one year | **41,313** | 51,318 |
| In more than one year but not more than two years | **10,000** | 12,262 |
| In more than two years but not more than five years | **18,000** | – |
| | **69,313** | 63,580 |

Before accepting any new borrower, the Group carries out research on the creditability of the new borrower and assesses the potential customer's credit quality and defines loan terms with borrower. The credit of the borrowers granted with loans are reviewed once a year.

As at 31st December, 2017, there were no loan receivables past due at the reporting date. The Group reviewed the recoverable amount of each individual loan receivable at the end of the reporting period to ensure that adequate impairment losses were made for irrecoverable amount. Accordingly, the directors of the Company believe that there was no allowance or impairment required.

As at 31st December, 2018, included in the carrying amount of loan receivables is accumulated impairment losses of HK$849,000 (2017: nil). Details of impairment assessment for the year ended 31st December, 2018 are set out in note 38.

## 20. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

| | **2018 HK$'000** | 2017 HK$'000 |
|---|---|---|
| Trade receivables | **67,929** | 53,567 |
| Less: Allowance for credit loss | **(506)** | (549) |
| | **67,423** | 53,018 |
| Other receivables | **1,090** | 1,038 |
| Deposits and prepayments | **6,360** | 5,434 |
| | **74,873** | 59,490 |

As at 1st January, 2018, trade receivables from contracts with customers amounted to HK$53,018,000.

The following is an aged analysis of trade receivables (net of allowance for credit loss) presented based on the invoice dates at the end of the reporting period, which approximate the respective revenue recognition dates.

| | **2018 HK$'000** | 2017 HK$'000 |
|---|---|---|
| 0–30 days | **24,926** | 23,374 |
| 31–60 days | **20,010** | 16,944 |
| 61–90 days | **10,446** | 7,052 |
| 91–120 days | **6,168** | 2,671 |
| More than 120 days | **5,873** | 2,977 |
| | **67,423** | 53,018 |

Except for certain customers who are allowed 30 to 60 days credit period, no credit period is allowed by the Group in respect of provision of cold storage and logistics services. No interest is charged on any outstanding trade receivables.

Before accepting any new customer, the Group carries out research on the creditability of the new customer and assesses the potential customer's credit quality and defines credit limits by customer. Credit limits granted to customers are reviewed once a year.

As at 31st December, 2018, included in the Group's trade receivables balance are debtors with an aggregate carrying amount of HK$45,655,000 which are past due at the reporting date. Out of the past due balances, HK$3,290,000 has been past due 90 days or more and is not considered as in default as the default risk of these debtors is low after considering the credit worthiness and past payment history of these debtors and forward-looking information available at the end of the reporting period. The Group does not hold any collateral over these balances.

## 20. TRADE AND OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS (continued)

As at 31st December, 2017, impairment losses were recognised against trade receivables based on estimated irrecoverable amounts determined by reference to past default experience of the counterparties and an analysis of the counterparties' current financial positions, 39% of the trade receivables were neither past due nor impaired. These trade receivables were of good credit quality as long credit periods are granted to the respective customers, who had a long business relationship with the Group and a strong financial position.

As at 31st December, 2017, included in the Group's trade receivables balance were debtors with a carrying amount of HK$32,243,000 which were past due at the reporting date for which the Group had not provided for impairment loss as there had not been a significant change in credit quality. The Group did not hold any collateral over these balances.

Aging of trade receivables which are past due but not impaired:

| | 2017<br>HK$'000 |
|---|---|
| Overdue: | |
| 1–30 days | 20,079 |
| 31–60 days | 8,277 |
| 61–90 days | 3,887 |
| | 32,243 |

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

| | 2017<br>HK$'000 |
|---|---|
| At beginning of the year | 474 |
| Impairment loss recognised on trade receivables | 36 |
| Exchange realignment | 39 |
| At end of the year | 549 |

At 31st December, 2017, the Group reviewed the recoverable amount of each individual trade receivable to ensure that adequate impairment losses are made for irrecoverable amount. Accordingly, the directors of the Company believed that there was no further provision required in excess of the allowance for doubtful debts.

The Group's other receivables balance mainly includes interest income receivables from deposits in banks and advances to employees for daily operations in which the directors of the Company consider that the allowance for credit losses for other receivables is insignificant to the Group.

Details of impairment assessment of trade and other receivables for the year ended 31st December, 2018 are set out in note 38.

## 21. AMOUNT DUE FROM NON-CONTROLLING INTERESTS OF A SUBSIDIARY

The amount was unsecured, interest-free and repayable on demand. The amount was settled through the then distribution to a non-controlling interest of the same amount.

## 22. BANK BALANCES AND CASH

Bank balances and cash comprise short-term bank deposits at average prevailing market interest rates of 0.7% (2017: 0.7%) per annum.

For the year ended 31st December, 2018, the Group performed impairment assessment on bank balances and concluded that the probability of defaults of the counterparty banks are insignificant and accordingly, no allowance for credit loss is provided.

## 23. TRADE AND OTHER PAYABLES

| | **2018 HK$'000** | 2017 HK$'000 |
|---|---|---|
| Trade payables | **13,484** | 9,056 |
| Accrual for staff costs | **5,012** | 4,890 |
| Bond interest payable | **2,992** | 2,992 |
| Other payables, deposits received and accrued charges | **7,877** | 11,946* |
| | **29,365** | 28,884 |

* Included in the balances was carrying amount of HK$6,932,000 related to advance billings to customers and reclassified as contract liabilities upon application of HKFRS 15 as at 1st January, 2018. Details are set out in note 24.

The following is an aged analysis of trade payables presented based on the invoice dates.

| | **2018 HK$'000** | 2017 HK$'000 |
|---|---|---|
| 0–30 days | **7,626** | 5,862 |
| 31–60 days | **2,479** | 1,932 |
| 61–90 days | **629** | 292 |
| 91–120 days | **2,103** | 14 |
| More than 120 days | **647** | 956 |
| | **13,484** | 9,056 |

No credit period is generally allowed by creditors and no interest is charged on trade creditors.

## 24. CONTRACT LIABILITIES

| | **31/12/2018 HK$'000** | 1/1/2018 HK$'000 (Note) |
|---|---|---|
| Cold storage services | **7,530** | 6,932 |

Note: The amount in this column is after the adjustment from the application of HKFRS 15.

Contract liabilities represent related to advance billings to customers for cold storage services but revenue has not recognised as performance obligations has not yet satisfied before the end of reporting period. The Group normally request payments from customers one-month in advance for cold storage services.

During the year ended 31st December, 2018, revenue recognised that was included in the contract liability balances at the beginning of the year amounted to HK$6,932,000. There is no revenue recognised from performance obligation satisfied in prior periods.

## 25. AMOUNT DUE TO AN INVESTEE

The amount due to an investee was unsecured, interest-free and repayable within one year.

## 26. BANK BORROWING

| | **2018 HK$'000** | 2017 HK$'000 |
|---|---|---|
| Fixed-rate unsecured bank borrowing | **65,000** | – |
| Carrying amount of bank borrowing that contain a repayment on demand clause (shown under current liabilities) and the maturity analysis based on the scheduled repayment date set out in the loan agreement is: | | |
| Within a period of more than one year but not more than two years | **65,000** | – |

The borrowing is payable in full on 23rd April, 2020. The effective interest rate (which are also equal to contracted interest rates) on the Group's fixed-rate bank borrowing is 7% per annum.

## 27. OBLIGATIONS UNDER FINANCE LEASES

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Analysed for reporting purposes are: | | |
| Current liabilities | **203** | 594 |
| Non-current liabilities | **88** | 291 |
| | **291** | 885 |

| | Minimum lease payments | | Present value of minimum lease payments | |
|---|---|---|---|---|
| | **2018**<br>**HK$'000** | 2017<br>HK$'000 | **2018**<br>**HK$'000** | 2017<br>HK$'000 |
| Within one year | **210** | 611 | **203** | 594 |
| Within a period more than one year but not more than two years | **88** | 210 | **88** | 203 |
| Within a period of more than two years but not more than five years | **–** | 88 | **–** | 88 |
| | **298** | 909 | **291** | 885 |
| Less: Future finance charges | **(7)** | (24) | | |
| Present value of lease obligations | **291** | 885 | | |
| Less: Amount due for settlement within one year shown under current liabilities | | | **(203)** | (594) |
| Amount due for settlement after one year | | | **88** | 291 |

The obligations under finance leases represent the finance leases for two (2017: seven) motor vehicles. The term of the leases ranged from four to five years (2017: three to five years) at a rate ranged from 1.40% to 1.49% (2017: 1.40% to 2.50%) per annum. The obligations are secured by the lessor's charge over the leased assets.

## 28. SHARE CAPITAL

| | Authorised | | Issued and fully paid | |
|---|---|---|---|---|
| | Number of shares '000 | Amount HK$'000 | Number of shares '000 | Amount HK$'000 |
| Ordinary shares of HK$0.01 each: | | | | |
| At 1st January, 2017, 31st December, 2017 and 31st December, 2018 | 60,000,000 | 600,000 | 2,432,304 | 24,323 |

## 29. DERIVATIVE FINANCIAL INSTRUMENTS

On 6th September, 2018, the Group entered into an agreement with two independent investors, in which the Group, and the two investors were committed to invest 30%, 60% and 10% of the shareholdings in Loving Peace, an associate of the Group, respectively. In accordance with the agreement, the Group grants two put options to the investor who invests 60% of the shareholding of in Loving Peace ("Investor A") as follow:

(1) The Group grants to Investor A an option whereby Investor A has the right to require the Group to purchase from Investor A all or part of its shares in Loving Peace ("the "Relevant Shares") and the Investor A's committed loan advanced to Loving Peace and its subsidiaries, amounted to US$5,000,000, and outstanding time to time (the "Shareholder Loan"), at the exercise price determined in the agreement (the "First Put Option"). The First Put Option shall be exercisable by Investor A in the event that the Group, as a manager, fails to meet the key performance indicators (the "KPIs") of BCCS in accordance with a management service agreement, which entered into by BCCS and the Group, for three consecutive quarters within thirty-six months after the date of management service agreement. The First Put Option shall be exercisable by Investor A within thirty-six months after the date of the management service agreement.

Under the First Put Option, the price of the Relevant Shares and Shareholder Loan shall be determined based on the pro-rata share of the valuation of Loving Peace which is the higher of (i) the total investment amount, which is US$33,000,000 in accordance with the agreement, plus any additional investments with an annual return of 15% and (ii) the fair value of the equity in Loving Peace and the Shareholder Loan.

(2) The Group grants to Investor A an option whereby Investor A has the right to require the Group to purchase from Investor A all or part of its Relevant Shares and Shareholder Loan, at the exercise price determined in the agreement (the "Second Put Option"). The Second Put Option shall be exercisable by Investor A after the expiration of thirty-six months after the date of the agreement, irrespective of whether the Group is able to meet the KPIs.

Under the Second Put Option, the price of the Relevant Shares and the Shareholder Loan shall be equal to the summation of the outstanding amount of the Shareholder Loan and US$1,000,000 (or if Investor A subsequently disposed of its shares, US$1,000,000 multiplied by the number of shares held by Investor A at the time when Investor A exercises the Second Put Option divided by the number of shares held by Investor A upon completion of share subscription in accordance with the agreement).

In determining the fair value of the options, the board of directors of the Company has delegated the Chief Financial Officer of the Company ("CFO") to determine the appropriate valuation techniques and inputs for fair value measurements.

## 29. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The Group engages third party qualified valuers to perform the valuation. The CFO works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the model.

The major input of the fair value measurement for the First Put Option is the probability that the Group of failure to meet the KPIs. Since the probability of the Group fails to meet the KPIs is very low, the fair value of the First Put Option at 31st December, 2018 is insignificant. The Group has not recognised any fair value of the First Put Option in the consolidated financial statements.

The fair value of the Second Put Option at 31st December, 2018 amounted to approximately US$832,000 (equivalent to HK$6,478,000). The fair value was calculated using Binomial Model and the inputs into the model were as follows:

| | At 31st December, 2018 |
|---|---|
| Underlying asset value (Investor A's interest in Loving Peace) | **US$9,754,000** |
| Exercise price | **US$6,000,000** |
| Risk free rate | **1.81%** |
| Volatility | **37.59%** |
| Dividend yield | **0%** |

The CFO reports the findings to the board of directors of the Company to explain the cause of fluctuations in the fair value of the assets and liabilities.

## 30. BONDS

On 13th November, 2014, the Company and the placing agent entered into the placing agreement, pursuant to which placing agent has agreed to, on a best effort basis, to procure independent placees to subscribe in cash for the bonds in an aggregated principal amount of up to HK$500,000,000. During the years ended 31st December, 2015 and 31st December, 2014, the Company issued bonds with total principal amount of HK$60,000,000 and HK$40,000,000 respectively.

The principal terms of the bonds are summarised below:

| | |
|---|---|
| Aggregate principal amount: | Up to HK$500,000,000 |
| Denomination: | In denomination of HK$10,000,000 each in the minimum (or for any amount over HK$10,000,000, in integral multiples of HK$10,000,000 each). |
| Interest: | 6% per annum, accrued daily on a 360-day basis and payable annually in arrears, up to the maturity date of the relevant bonds. |
| Maturity date: | The seventh anniversary of the date of issue of the relevant bond. |
| Early redemption: | The Company may at any time before the maturity date and from time to time by serving at least ten days' prior written notice to the bondholder with the total amount proposed to be redeemed from the bondholder specified therein, redeem the bonds (in whole or in part) at 100% of the total amount of such bonds together with payment of interests accrued up to the date of such early redemption. |

At the end of the reporting period, interest on bonds payable at par value of HK$100,000,000 (2017: HK$100,000,000) is payable annually and the principal is repayable in full upon maturity.

## 31. SHARE OPTION SCHEME

The Company had a share option scheme which was adopted on 9th January, 2006 (the "2006 Scheme"). At the annual general meeting of the Company held on 29th May, 2015, the shareholders of the Company approved the termination of the 2006 Scheme and the adoption of a new share option scheme (the "2015 Scheme"). The 2015 Scheme is subsequently adopted on 2nd June, 2015 (the "Adoption Date"). There is no material difference between the terms of the 2006 Scheme and the 2015 Scheme.

The Company currently operates the 2015 Scheme, under which the board of directors may, at its discretion, grant share options to any eligible participant to subscribe for ordinary shares (the "Shares") of the Company subject to the terms and conditions stipulated therein.

Summary of the 2015 Scheme as required to be disclosed under Chapter 17 of the Listing Rules are set out below:

(a) Purpose:

The purpose of the 2015 Scheme is to provide incentives and rewards to the eligible participants who, in the sole discretion of the board of directors, has contributed or may contribute to the growth and development of the Group in recognition of their contribution to the Group.

(b) Eligibility:

Eligible participants include any full time or part time employees of the Group or any invested entity (including any directors, whether executive or non-executive and whether independent or not, of the Company or any subsidiary or any invested entity); any holder of any securities issued by the Group; and any business or joint venture partners, contractors, agents or representatives, consultants, advisers, suppliers, producers or licensors, customers, licensees (including any sub-licensee) or distributors, landlords or tenants (including any sub-tenants) of the Group or any invested entity or any person who, in the sole discretion of the board of directors, has contributed or may contribute to the growth and development of the Group eligible for options under the 2015 Scheme.

(c) (1) Total number of Shares in the capital of the Company available for issue under the 2015 Scheme as at end of the reporting period: 243,230,400; and

(2) Percentage of the issued share capital that it represents as at end of the reporting period: 10%.

(d) Maximum entitlement of each eligible participant under the 2015 Scheme:

The total number of Shares issued and to be issued upon exercise of options (whether exercised or outstanding) granted in any 12-month period to:

(1) each eligible participant must not exceed 1.0% of the total number of Shares in issue; and

(2) a substantial shareholder of the Company or an independent non-executive director must not exceed 0.1% of the total number of Shares in issue and not exceed HK$5 million in aggregate value.

## 31. SHARE OPTION SCHEME (continued)

(e) Period within which the Shares must be taken up under an option:

An option may be exercised in whole or in part at any time during the period to be determined and notified by the directors to the grantee thereof at the time of making an offer provided that such period shall not exceed the period of 10 years from the date of the grant of the particular option but subject to the provisions for early termination of the 2015 Scheme.

(f) Minimum period for which an option must be held before it can be exercised:

No specified minimum period for which an option must be held, unless otherwise specified by the board of directors at the time of grant.

(g) (1) Price payable on application or acceptance of the option: A non-refundable nominal consideration of HK$1.00 is payable by the grantee upon acceptance of an option;

(2) The period within which payments or calls must or may be made: 21 days after the offer date of an option (the "Offer Date"); and

(3) The period within which loans for the purposes of the payments or calls must be repaid: Not applicable.

(h) Basis of determining the subscription price:

The subscription price for Shares under the 2015 Scheme may be determined by the board of directors at its absolute discretion but in any event will not be less than the highest of:

(1) the closing price of the Shares on the Stock Exchange as shown in the daily quotations sheet of the Stock Exchange on the date on the Offer Date, which must be a business day;

(2) the average of the closing prices of the Shares as shown in the daily quotations sheets of the Stock Exchange for the five (5) business days immediately preceding the Offer Date; and

(3) the nominal value of the Share on the Offer Date.

(i) The remaining life of the 2015 Scheme: Approximately 7 years (expiring on 1st June, 2025)

No share options under the 2006 Scheme have been granted, exercised, lapsed or cancelled since the establishment of the 2006 Scheme. Since the Adoption Date and up to 31st December, 2018, no share options have been granted pursuant to the 2015 Scheme.

## 32. RETIREMENT BENEFITS SCHEMES

The Group operates a Mandatory Provident Fund Scheme (the "MPF Scheme") for all qualifying employees including directors in Hong Kong. The assets of the Scheme are held separately from those of the Group in funds under the control of the independent trustee. The scheme contributions represent contributions payable to the fund by the Group at rates specified in the rules of the Scheme.

In addition to the mandatory contribution of 5% of the payroll costs, the Group voluntaries contributes 1% to 5%, depends on the year of service of the employee, to the MPF Scheme.

Where there are employees who leave the MPF Scheme prior to vesting fully in the contributions, the amount of the forfeited contributions will be used to reduce future contributions payable by the Group.

According to the relevant laws and regulations in the PRC, the PRC subsidiary is required to contribute a certain percentage of the salaries of their employees to the state-managed retirement benefit schemes. The only obligation of the Group with respect to the retirement benefit scheme is to make the required contributions under the scheme.

The total cost charged to the consolidated statement of profit or loss and other comprehensive income of HK$4,171,000 (2017: HK$4,119,000) represents contributions payable to the MPF Scheme and the state-managed retirement benefit schemes, there were no forfeited contributions available to reduce future contributions at the end of the reporting period.

## 33. DEFERRED TAX LIABILITIES

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

| | **Tax losses** | **Accelerated tax depreciation** | **Total** |
|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 |
| At 1st January, 2017 | 473 | (473) | – |
| (Charge) credit for the year | (127) | 127 | – |
| At 31st December, 2017 | 346 | (346) | – |
| (Charge) credit for the year | (249) | 249 | – |
| At 31st December, 2018 | 97 | (97) | – |

For the purpose of presentation in the consolidated statement of financial position, the deferred tax assets and liabilities have been offset.

## 33. DEFERRED TAX LIABILITIES (continued)

At the end of the reporting period, the Group has deductible temporary difference of HK$3,607,000 (2017: HK$3,355,000) in respect of which no deferred tax asset has been recognised as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

At the end of the reporting period, the Group has unused tax losses of HK$178,425,000 (2017: HK$153,979,000) available for offset against future profits. A deferred tax has been recognised in respect of tax losses of HK$586,000 (2017: HK$2,096,000). No deferred tax asset has been recognised in respect of the remaining tax losses of HK$177,839,000 (2017: HK$151,883,000) due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of HK$76,141,000 (2017: HK$66,797,000) that will expire from 2019 to 2023 (2017: 2018 to 2022). Other losses are carried forward indefinitely.

## 34. PLEDGE OF ASSETS

As at 31st December, 2018, bank facilities for providing guarantees by a bank for the Group's licence of operating cold storage service, to the extent of HK$3,500,000 (2017: HK$3,500,000) of the Group are secured by bank deposits amounting to HK$3,500,000 (2017: HK$3,500,000). The amount utilised at 31st December, 2018 was approximately HK$3,480,000 (2017: approximately HK$3,480,000).

As at 31st December, 2018, bank deposits of HK$101,853,000 (2017: HK$99,475,000) are pledged to a bank, which provides bank guarantee in favour of two landlords for a sum equivalent to 12 months' rent payable by the Group under tenancy agreements.

The pledged deposits bear interest at average prevailing market interest rate of 0.9% (2017: 0.9%) per annum.

For the year ended 31st December, 2018, the Group performed impairment assessment on pledged bank deposits balance and concluded that the probability of defaults of the counterparty banks are insignificant and accordingly, no allowance for credit losses is provided.

In addition, the Group's obligations under finance leases are secured by the lessor's charge over the leased assets as disclosed in note 27.

## 35. OPERATING LEASE ARRANGEMENTS

### The Group as lessee

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of cold storage warehouses, office premises and premises for the operation of trading and related services in the PRC in the future which fall due as follows:

| | **2018** **HK$'000** | 2017 HK$'000 |
|---|---|---|
| Within one year | **72,453** | 101,529 |
| In the second to fifth year inclusive | **263,287** | 1,549 |
| Over five years | **8,313** | – |
| | **344,053** | 103,078 |

Included in the above, the major lease contracts are negotiated for terms of eight years commencing from February 2019 (2017: fourteen years commencing from February 2005) and can be terminated by providing one year notice after the first four (2017: ten) years of tenancy. The fixed monthly rentals are subject to review every five (2017: three) years.

## 36. CAPITAL COMMITMENT

| | **2018** **HK$'000** | 2017 HK$'000 |
|---|---|---|
| Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements | **1,186** | – |

The Group's share of capital commitment made jointly with other investors relating to its associate, but not recognised at the end of the reporting date is as follows:

| | **2018** **HK$'000** | 2017 HK$'000 |
|---|---|---|
| Commitment to provide loan to an associate | **10,929** | – |
| Capital expenditure in respect of the acquisition of property, plant and equipment contracted for but not provided in the consolidated financial statements of the associate | **7,763** | – |

## 37. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of debts, which includes the bank borrowing and bonds, net of cash and cash equivalents, and equity attributable to owners of the Company, comprising issued capital, share premium and reserves as disclosed in consolidated statement of financial position.

The directors of the Company review the capital structure on a semi-annual basis. As a part of this review, the directors of the Company considers the cost of capital and the risks associated with the issued share capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debt or the redemption of existing debt, if necessary.

## 38. FINANCIAL INSTRUMENTS

### (a) *Categories of financial instruments*

| | **2018**<br>**HK$'000** | 2017<br>HK$'000 |
|---|---|---|
| *Financial assets* | | |
| Financial assets at FVTPL | **731** | – |
| Held for trading investments | – | 902 |
| Financial assets at amortised cost | **345,753** | – |
| Equity instrument at FVTOCI | – | – |
| Loans and receivables (including cash and cash equivalents) | – | 325,163 |
| Available-for-sale investment | – | 38,502 |
| *Financial liabilities* | | |
| Derivative financial instruments | **6,478** | – |
| Amortised cost | **192,652** | 159,468 |

### (b) *Financial risk management objectives and policies*

The Group's major financial instruments include financial assets at FVTPL, loan to an associate, equity instrument at FVTOCI, AFS investment, trade and other receivables, amount due from non-controlling interests of a subsidiary, pledged bank deposits, loan receivables, held for trading investments, bank balances and cash, trade and other payables, amount due to an investee, bank borrowing, derivative financial instruments and bonds. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (interest rate risk and price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

The Group does not enter into or trade financial instruments, including derivative financial instruments, for hedging or speculative purpose.

## 38. FINANCIAL INSTRUMENTS (continued)

### (b) *Financial risk management objectives and policies (continued)*

***Market risk***

There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk.

*(i) Interest rate risk*

The Group is exposed to fair value interest rate risk in relation to fixed-rate bank borrowing and bonds (see notes 26 and 30 for details of these borrowing and bonds). The Group is exposed to cash flow interest rate risk in relation to pledged bank deposits and bank balances at floating interest rate. The Group currently does not have any hedging policy against interest rate risk and will consider should the needs arise.

*(ii) Price risk*

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

Since the interest rate risk and price risk are not significant, no sensitivity analysis is presented accordingly.

***Credit risk***

As at 31st December, 2018, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties provided by the Group is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management committee annually.

For cold storage and related services segment, the Group has concentration of credit risk as 21% (2017: 22%) and 57% (2017: 51%) of the total trade receivables was due from the Group's largest customer and the five largest customers, respectively. In addition, the Group has concentration of credit risk relating to loan to an associate of HK$47,525,000 (2017: nil) and pledged bank deposits of HK$101,853,000 (2017: HK$99,475,000) in a bank. For money lending services segment, the Group's loan receivables from ten (2017: seven) borrowers represent 100% of loan receivables. In order to minimise the concentration risk, the management of the Group has delegated staff responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure follow-up action is taken to recover overdue debts and performed annual review on customers' and borrowers' credit quality, and the credit rating of the bank.

## 38. FINANCIAL INSTRUMENTS (continued)

### (b) *Financial risk management objectives and policies (continued)*

***Credit risk** (continued)*

*Before adoption of HKFRS 9 as at 1st January, 2018*

The Group reviews the recoverable amount of each individual debt, including trade receivables, loan receivables and amount due from non-controlling interests of a subsidiary at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amount. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

*Upon adoption of HKFRS 9 as at 1st January, 2018*

Starting from 1st January, 2018, the Group reassesses lifetime ECL for trade receivables arising from contracts with customers without significant financing components as at 31st December, 2018 to ensure that adequate impairment loss are made for significant increase in likelihood or risk of a default occurring. The ECL on these assets are assessed for debtors with significant balances and collectively using a provision matrix with appropriate groupings.

As part of the Group's credit risk management, the Group use debtors' aging to assess with the impairment for its customers because these customers consists of a large number of customers which share common risk characteristics that are representative of the customers' abilities to pay all amounts due in accordance with the contractual terms. The estimated loss rates are estimated on historical observed default rates over the expected life of the debtors and are adjusted forward-looking information that is available without undue cost or effort. The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated.

The Group writes off trade receivables when there is information indicating that the debtors are in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtors have been placed under liquidation or has entered into bankruptcy proceedings, or when the trade receivables are over two years past due, whichever occurs earlier.

ECL for all other instruments including loan and other receivables, and loan to an associate, are assessed individually. All other instruments that are considered, with reference to internal credit rating, as low risk are assessed under 12m ECL while all other instruments that are considered as doubtful or loss are assessed under lifetime ECL. The assessment of whether lifetime ECL should be recognised based on significant increases in the likelihood or risk of a default occurring since initial recognition.

## 38. FINANCIAL INSTRUMENTS (continued)

### (b) *Financial risk management objectives and policies (continued)*

***Credit risk** (continued)*

*Upon adoption of HKFRS 9 as at 1st January, 2018* (continued)

The Group's internal credit risk grading assessment comprises the following categories:

| Internal credit rating | Description | Trade receivables | Other financial assets/other items |
|---|---|---|---|
| Low risk | The counterparty has a low risk of default and does not have any past-due amounts and debtor frequently repays after due dates but usually settle after due date | Lifetime ECL – not credit-impaired | 12m ECL |
| Doubtful | There have been significant increases in credit risk since initial recognition through information developed internally or external resources | Lifetime ECL – not credit-impaired | Lifetime ECL – not credit-impaired |
| Loss | There is evidence indicating the asset is credit-impaired | Lifetime ECL – credit-impaired | Lifetime ECL – credit-impaired |
| Write-off | There is evidence indicating that the debtor is in severe financial difficulty and the Group has no realistic prospect of recovery | Amount is written off | Amount is written off |

The tables below detail the credit risk exposures of the Group's financial assets at amortised cost which are subject to ECL assessment:

| 2018 | Notes | External credit rating | Internal credit rating | Lifetime ECL/ 12-month ECL | Gross carrying amount HK$'000 |
|---|---|---|---|---|---|
| Trade receivables | 1 | N/A | Low risk | Lifetime ECL (provision matrix) | 28,559 |
| | | | Low risk | Lifetime ECL | 39,370 |
| Loan receivables | 2 | N/A | Low risk | 12m ECL | 65,973 |
| | | | Doubtful | Lifetime ECL | 3,005 |
| | | | Loss | Lifetime ECL | 335 |
| Other receivables | 3 | N/A | Low risk | 12m ECL | 1,090 |
| Loan to an associate | 3 | N/A | Low risk | 12m ECL | 47,525 |
| Pledged bank deposits | | A or above | N/A | | 105,353 |
| Bank balances | | A or above | N/A | | 55,727 |

## 38. FINANCIAL INSTRUMENTS (continued)

### (b) *Financial risk management objectives and policies (continued)*

***Credit risk** (continued)*

*Upon adoption of HKFRS 9 as at 1st January, 2018* (continued)

Notes:

1) *Trade receivables*

During the year ended 31st December, 2018, the Group writes off trade receivables of HK$549,000 as the trade receivables are over one year past due.

As at 31st December, 2018, management considered that all the trade receivables have not deteriorated significantly in credit quality since initial recognition and the credit risk at the reporting date is considered as low. Allowance of credit loss of HK$506,000 is provided at the end of the reporting period based on lifetime expected credit losses for trade receivables.

Trade receivables with significant outstanding balances with gross carrying amount of HK$39,370,000 as at 31st December, 2018 for ECL were assessed individually. The default risk of these debtors is low after considering the credit worthiness and past payment history of these debtors and forward-looking information available at the end of the reporting period. At 31st December, 2018, allowance of credit loss of HK$506,000 is provided on these balances based on individual assessment.

The remaining trade receivables of HK$28,559,000 which consists of a large number of customers which share common risk characteristics are assessed based on provision matrix. The following table provides information about the exposure to credit risk for trade receivables which are assessed based on provision matrix as at 31st December 2018.

*Gross carrying amount*

| | Trade receivables HK$'000 |
|---|---|
| Current (not past due) | 5,371 |
| Past due | |
| – 1–30 days | 12,835 |
| – 31–60 days | 7,437 |
| – 61–90 days | 2,553 |
| – More than 90 days | 363 |
| At 31st December, 2018 | 28,559 |

At 31st December, 2018, the Group considered the ECL for these trade receivables is insignificant to the Group based on these provision matrix and low risk rating (with reference to internal credit rating). No allowance of credit loss is provided.

The following table shows the movement in lifetime ECL that has been recognised for trade receivables under the simplified approach:

| | Lifetime ECL (not credit-impaired) HK$'000 | Lifetime ECL (credit-impaired HK$'000 | Total HK$'000 |
|---|---|---|---|
| As at 31st December, 2017 under HKAS 39 and as at 1st January, 2018 under HKFRS 9 | – | 549 | 549 |
| Changes due to financial instruments recognised as at 1st January: | | | |
| – Impairment losses recognised | 506 | – | 506 |
| – Write-offs | – | (549) | (549) |
| As at 31st December, 2018 | 506 | – | 506 |

## 38. FINANCIAL INSTRUMENTS (continued)

### (b) *Financial risk management objectives and policies (continued)*

***Credit risk** (continued)*

*Upon adoption of HKFRS 9 as at 1st January, 2018* (continued)

Notes: (continued)

2) *Loan receivables*

Loan receivables with gross carrying amount of HK$69,313,000 were assessed individually.

Included in the balances are loan receivables with gross carrying amount of HK$65,973,000 secured by some property interests located in Hong Kong and some equity interests in unlisted companies. The directors of the Company consider the exposure of credit risk of these loan receivables is low after taking into account the value of the collateral, historical settlements of loan interests and other forward-looking information. The fair value of the collateral (property interests) is higher than the outstanding amount of these receivables at the end of the reporting period. The rate of default and 12m ECL of these loan receivables is considered as insignificant to the Group, and no allowance of credit loss is provided for these loan receivables.

Loan receivables with gross carrying amount of HK$3,005,000 were considered as doubtful because they are either unsecured, interest were settled after the due date, or loan principals were extended at due date. There have been significant increase in credit risk since initial recognition but they are not credit-impaired. The Group reassesses lifetime ECL for these loan receivables. Credit loss allowance of HK$514,000 was provided for these loan receivables after considered the historical observed default rates over the expected life of these loan receivables, which ranged from 6% to 20%, and forward-looking information at the end of the reporting period.

Loan receivable with gross carrying amount of HK$335,000 was considered as loss because the amount is unsecured, interest and principal were overdue over 90 days. Credit loss allowance of HK$335,000 was provided for this receivable as there is evidence indicating that the receivable is credit-impaired.

The following table shows the movement in lifetime ECL that has been recognised for loan receivables:

| | Lifetime ECL (not credit-impaired) HK$'000 | Lifetime ECL (credit-impaired HK$'000 | Total HK$'000 |
|---|---|---|---|
| As at 31st December, 2017 under HKAS 39 and as at 1st January, 2018 under HKFRS 9 | – | – | – |
| Changes due to financial instruments recognised as at 1st January 2018: | | | |
| – Impairment losses recognised | 514 | 335 | 849 |
| As at 31st December, 2018 | 514 | 335 | 849 |

3) *Others receivables and loan to an associate*

The Group has assessed and concluded that the risk of default rate for the other instruments are steady based on the Group's assessment of the financial health of the counterparties, historical default experience and forward-looking information available at the end of the reporting period. Thus, the directors of the Company considered that the ECL of the other instruments of the Group is insignificant as at 31st December, 2018.

The credit risk on liquid funds and pledged bank deposits are limited because the counterparties are banks with good reputation and high credit ratings assigned by international credit-rating agencies.

***Liquidity risk***

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by maintaining adequate reserves and banking facilities and will continuously monitor the forecast and actual cash flows.

## 38. FINANCIAL INSTRUMENTS (continued)

### (b) *Financial risk management objectives and policies (continued)*

***Liquidity risk** (continued)*

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

| | Weighted average effective interest rate % | On demand/ 6 months or less HK$'000 | 6–12 months or less HK$'000 | 1–2 years HK$'000 | 2 –5 years HK$'000 | Total undiscounted cash flows amount HK$'000 | Carrying amount HK$'000 |
|---|---|---|---|---|---|---|---|
| **2018** | | | | | | | |
| Non-derivative financial liabilities | | | | | | | |
| Non-interest bearing | – | 24,660 | – | – | – | 24,660 | 24,660 |
| Obligations under finance leases | | | | | | | |
| – fixed rate | 1.45 | 105 | 105 | 88 | – | 298 | 291 |
| Bank borrowing | 7 | 65,000 | – | – | – | 65,000 | 65,000 |
| Bonds | 6 | 3,600 | 2,400 | 6,000 | 109,600 | 121,600 | 102,992 |
| | | 93,365 | 2,505 | 6,088 | 109,600 | 211,558 | 192,943 |
| Derivative financial instruments | | – | – | – | 6,478 | 6,478 | 6,478 |

| | Weighted average effective interest rate % | On demand/ 6 months or less HK$'000 | 6–12 months or less HK$'000 | 1–2 years HK$'000 | 2 –5 years HK$'000 | Total undiscounted cash flows amount HK$'000 | Carrying amount HK$'000 |
|---|---|---|---|---|---|---|---|
| 2017 | | | | | | | |
| Non-interest bearing | – | 56,476 | – | – | – | 56,476 | 56,476 |
| Obligations under finance leases | | | | | | | |
| – fixed rate | 1.92 | 454 | 157 | 210 | 88 | 909 | 885 |
| Bonds | 6 | 3,600 | 2,400 | 6,000 | 115,600 | 127,600 | 102,992 |
| | | 60,530 | 2,557 | 6,210 | 115,688 | 184,985 | 160,353 |

Bank borrowing with a repayment on demand clause is included in the "on demand or 6 months or less" time band in the above maturity analysis. As at 31st December, 2018, the carrying amount of this bank borrowing amounted to HK$65,000,000 (2017: nil).

## 38. FINANCIAL INSTRUMENTS (continued)

### (b) *Financial risk management objectives and policies (continued)*

***Liquidity risk** (continued)*

Taking into account the Group's financial position, the directors do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The directors believe that such bank loans will be repaid within the scheduled repayment dates set out in the loan agreements, details of which are set out in the table below:

| | | Maturity Analysis – Term loans subject to a repayment on demand clause based on scheduled repayments | | | | |
|---|---|---|---|---|---|---|
| | Weighted average effective interest rate % | 6 months or less HK$'000 | 6 –12 months or less HK$'000 | 1–2 years HK$'000 | Total undiscounted cash outflows HK$'000 | Carrying amount HK$'000 |
| 31st December, 2018 | 7 | 2,244 | 2,244 | 66,496 | 70,984 | 65,000 |

### (c) Fair value measurements of financial instruments

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and liabilities are determined (in particular, the valuation technique(s) and inputs used).

***Fair value hierarchy***

| | Level 1 HK$'000 | Level 3 HK$'000 | Total HK$'000 |
|---|---|---|---|
| *As at 31st December, 2018* | | | |
| **Financial assets at FVTPL** | | | |
| Held for trading listed equity securities (Note 1) | 731 | – | 731 |
| **Equity instrument at FVTOCI** | | | |
| Unlisted equity instrument (Note 3) | – | – | – |
| **Financial liabilities** | | | |
| Derivative financial liability (Note 2) | – | 6,478 | 6,478 |
| *As at 31st December, 2017* | | | |
| **Financial assets** | | | |
| Held for trading listed equity securities (Note 1) | 902 | – | 902 |

## 38. FINANCIAL INSTRUMENTS (continued)

### (c) Fair value measurements of financial instruments (continued)

Notes:

1) The fair value of listed equity securities is determined with reference to quoted market bid prices from the Stock Exchange.

2) The fair value of derivative financial instrument was calculated using Binomial Model. The significant unobservable input mainly include expected volatility of 35.75%, taking account into volatility of other comparable listed companies in Hong Kong. A slight increase in the expected volatility used in isolation would result in an increase in the fair value measurement of the derivative, and vice versa. A 3% increase/decrease in the volatility holding all other variables constant would increase the carrying amount of the derivative by HK$1,097,000/decrease the carrying amount of the derivative by HK$1,071,000.

3) Since Richbo remains inactive and has insignificant amount of net asset value as at 31st December, 2018, the management considers that the fair value of the equity instrument is minimal.

There were no transfers between Levels 1 and 2 during the year.

The directors of the Company consider that the carrying amounts of other financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

***Reconciliation of Level 3 fair value measurements***

| | Equity instrument at FVTOCI HK$'000 | Derivative financial instruments HK$'000 | Total HK$'000 |
|---|---|---|---|
| At 1st January, 2017, 31st December, 2017 | – | – | – |
| Reclassification and remeasurement (note 2) | 39,042 | – | 39,042 |
| At 1st January, 2018 (restated) | 39,042 | – | 39,042 |
| Return on investment (note 18) | (39,042) | – | (39,042) |
| Change in fair value | – | 6,478 | 6,478 |
| At 31st December, 2018 | – | 6,478 | 6,478 |

## 39. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

| | Amount due to an investee HK$'000 | Amount due from non-controlling interests of a subsidiary HK$'000 | Bank borrowing HK$'000 | Obligations under finance leases HK$'000 | Bond interest payable HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| **As at 1st January, 2017** | 39,042 | 9,760 | – | 2,738 | 2,992 | 54,532 |
| Financing cash flows: | | | | | | |
| Interest paid | – | – | – | (77) | (6,000) | (6,077) |
| Repayment of obligations under finance leases | – | – | – | (1,853) | – | (1,853) |
| Interest expenses | – | – | – | 77 | 6,000 | 6,077 |
| Total change from financing cash flow | – | – | – | (1,853) | – | (1,853) |
| **As at 31st December, 2017** | 39,042 | 9,760 | – | 885 | 2,992 | 52,679 |
| Financing cash flows: | | | | | | |
| Interest paid | – | – | (748) | (17) | (6,000) | (6,765) |
| Repayment of obligations under finance leases | – | – | – | (594) | – | (594) |
| Interest expenses | – | – | 748 | 17 | 6,000 | 6,765 |
| Distribution to non-controlling interests (note 40) | – | (9,760) | – | – | – | (9,760) |
| Return on investment (note 18) | (39,042) | – | – | – | – | (39,042) |
| New loan raised | – | – | 65,000 | – | – | 65,000 |
| Total change from financing cash flows | (39,042) | (9,760) | 65,000 | (594) | – | 15,604 |
| As at 31st December, 2018 | – | – | 65,000 | 291 | 2,992 | 68,283 |

## 40. MAJOR NON-CASH TRANSACTIONS

During the year ended 31st December, 2018:

1) return of investment of HK$39,042,000 from the investee classified as equity instrument at FVTOCL was settled through the then outstanding amount due to the investee of the same amount.

2) a subsidiary of the Company made a distribution of HK$9,760,000 to a non-controlling interest. The amount was settled through the then outstanding amount due from non-controlling interest of a subsidiary.

## 41. RELATED PARTY TRANSACTIONS

During the year ended 31st December, 2018, the Group entered into the following transactions with related parties:

1) The Group granted an unsecured loan amounted to HK$5,693,000 to a subsidiary of the Group's associate bearing interest at a fixed rate of 7% per annum and with maturity of two months. Corresponding interest income arising from the loan amounted to HK$187,000 was recognised as part of the revenue in profit or loss. Details of interest in this associate are disclosed in note 16.

2) On 1st August, 2018, the Group entered into a consulting service agreement with one of the shareholders of an associate of the Group for provision of business consulting advice in relation to the Group's trading of food and beverage business in the PRC for a period from 1st August, 2018 to 30th June, 2019 at a fee of HK$200,000 per quarter. During the year ended 31st December, 2018, the corresponding consulting fee expense incurred amounted to HK$333,000 was recognised in profit or loss.

The Group did not enter into any other transaction with its related parties during the year ended 31st December, 2018 and 31st December, 2017.

The key management of the Group comprises all directors and the senior management, details of their remuneration are disclosed in note 11. The remuneration of directors is determined by the remuneration committee having regard to the performance of individuals and market trends.

## 42. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Details of the principal subsidiaries directly and indirectly held by the Company as at 31st December, 2018 and 2017 are as follows:

| Name | Place of incorporation/ operation | Issued and paid-up ordinary shares/ registered capital | Proportion of ownership interest held by the Company 2018 | 2017 | Principal activities |
|---|---|---|---|---|---|
| **Direct subsidiary:** | | | | | |
| Daido (BVI) Limited | British Virgin Islands | US$2 Ordinary shares | **100%** | 100% | Investment holding |
| **Indirect subsidiary:** | | | | | |
| Brilliant Cold Storage Management Limited | Hong Kong | HK$2 Ordinary shares | **100%** | 100% | Provision of cold storage and related services |
| Brilliant Gold International Limited | British Virgin Islands | US$1,000 Ordinary shares | **75%** | 75% | Investment holding |
| Brilliant Giant Trading Limited | Hong Kong | HK$1 Ordinary share | **100%** | 100% | Provision of cold storage and related services |
| Brilliant Top In Logistics Limited | Hong Kong | HK$2 Ordinary shares | **100%** | 100% | Provision of cold storage and related services |
| Diamond Sparkling Limited | Hong Kong | HK$10 Ordinary shares | **100%** | 100% | Sub-leasing of properties |
| Gold View Management Limited | Hong Kong | HK$1 Ordinary share | **100%** | 100% | Provision of cold storage management services |
| Lubrano Properties Limited | British Virgin Islands | US$50,000 Ordinary shares | **100%** | 100% | Investment holding |
| Mutual Credit Limited (formerly known as "Mayfair Pacific Finance (HK) Limited") | Hong Kong | HK$5,000,000 Ordinary shares | **100%** | 100% | Money lending service |
| Sanson Investments Limited | Hong Kong | HK$1 Ordinary share | **100%** | 100% | Investment holding |
| Sky Elegant Development Limited | Hong Kong | HK$1 Ordinary share | **100%** | 100% | Investment holding |
| Topgain Investments Limited | British Virgin Islands | US$1 Ordinary share | **100%** | 100% | Investment holding |
| Win System Investments Limited | Hong Kong | HK$1 Ordinary share | **100%** | 100% | Financial investment |
| 同瞬貿易(上海)有限公司 | PRC# | RMB50,000,000 Registered capital RMB50,000,000 (2017: RMB40,500,425) paid-up capital | **100%** | 100% | Trading of food and beverage |

# Wholly foreign owned enterprise

The above table lists the subsidiaries of the Company which, in the opinion of the directors of the Company, principally affect the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

None of the subsidiaries had issued any debt securities at the end of the year.

## 43. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

| | **2018** **HK$'000** | 2017 HK$'000 |
|---|---|---|
| NON-CURRENT ASSETS | | |
| Investment in a subsidiary | **1** | 1 |
| Amounts due from subsidiaries | **179,491** | 169,443 |
| | **179,492** | 169,444 |
| CURRENT ASSETS | | |
| Other receivables, deposits and prepayments | **543** | 533 |
| Amounts due from subsidiaries | **52,458** | 56,616 |
| Bank balances and cash | **2,055** | 14,860 |
| | **55,056** | 72,009 |
| CURRENT LIABILITIES | | |
| Other payables | **5,294** | 4,052 |
| Amounts due to subsidiaries | **29,249** | 29,256 |
| | **34,543** | 33,308 |
| NET CURRENT ASSETS | **20,513** | 38,701 |
| TOTAL ASSETS LESS CURRENT LIABILITIES | **200,005** | 208,145 |
| CAPITAL AND RESERVES | | |
| Share capital | **24,323** | 24,323 |
| Reserves (Note) | **75,682** | 83,822 |
| | **100,005** | 108,145 |
| NON-CURRENT LIABILITY | | |
| Bonds | **100,000** | 100,000 |
| | **200,005** | 208,145 |

Note: Movement of the Company's reserves are set out below:

| | **Share premium** HK$'000 | **Capital reserve** HK$'00 | **Contributed surplus** HK$'0000 | **Accumulated losses** HK$'000 | **Total** HK$'000 |
|---|---|---|---|---|---|
| At 1st January, 2017 | 374,226 | 39,984 | 84,239 | (419,329) | 79,120 |
| Profit for the year and total comprehensive income for the year | – | – | – | 4,702 | 4,702 |
| At 31st December, 2017 | 374,226 | 39,984 | 84,239 | (414,627) | 83,822 |
| Loss for the year and total comprehensive expense for the year | – | – | – | (8,140) | (8,140) |
| At 31st December, 2018 | 374,226 | 39,984 | 84,239 | (422,767) | 75,682 |

# FINANCIAL SUMMARY

| | Year ended 31st December, | | | | |
|---|---|---|---|---|---|
| | **2018** | 2017 | 2016 | 2015 | 2014 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Turnover | **309,246** | 275,493 | 305,651 | 275,783 | 213,752 |
| (Loss) profit for the year | **(37,934)** | (35,351) | (12,327) | (6,444) | (23,851) |

| | As at 31st December, | | | | |
|---|---|---|---|---|---|
| | **2018** | 2017 | 2016 | 2015 | 2014 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| Total assets | **395,481** | 403,378 | 442,746 | 456,653 | 386,311 |
| Total liabilities | **(208,664)** | (168,811) | (173,209) | (174,107) | (96,591) |
| | **186,817** | 234,567 | 269,537 | 282,546 | 289,720 |
| Attributable to: | | | | | |
| Owners of the Company | **181,654** | 219,644 | 254,614 | 267,623 | 274,797 |
| Non-controlling interests | **5,163** | 14,923 | 14,923 | 14,923 | 14,923 |
| | **186,817** | 234,567 | 269,537 | 282,546 | 289,720 |