2018 Annual Report

天津發展控股有限公司
TIANJIN DEVELOPMENT HOLDINGS LIMITED

Stock Code : 882

Contents

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Wang Zhiyong *(General Manager)*
Dr. Cui Di
Dr. Yang Chuan

Non-Executive Directors

Mr. Cheung Wing Yui, Edward
Dr. Chan Ching Har, Eliza

Independent Non-Executive Directors

Dr. Cheng Hon Kwan
Mr. Mak Kwai Wing, Alexander
Ms. Ng Yi Kum, Estella
Mr. Wong Shiu Hoi, Peter
Dr. Loke Yu

AUTHORISED REPRESENTATIVES

Mr. Wang Zhiyong
Dr. Cui Di

COMPANY SECRETARY

Ms. Lee Su Yee, Bonnia

INDEPENDENT AUDITOR

Deloitte Touche Tohmatsu

SOLICITOR

Woo Kwan Lee & Lo

REGISTERED OFFICE

Suites 7–13, 36th Floor
China Merchants Tower
Shun Tak Centre
168–200 Connaught Road Central
Hong Kong

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Website : www.tianjindev.com

SHARE REGISTRAR AND TRANSFER OFFICE

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

STOCK CODE

Hong Kong Stock Exchange: 882

PRINCIPAL BANKERS

China CITIC Bank International Limited
DBS Bank Ltd., Hong Kong Branch
Industrial and Commercial Bank of China (Asia) Limited
CMB Wing Lung Bank Limited

Tianjin Development Holdings Limited

Utilities

Electricity
Water
Heat and Thermal Power

Pharmaceutical

Lisheng (002393.SZ)
Yiyao Printing
Research Institute

Hotel

Courtyard by
Marriott Hong Kong

Electrical and Mechanical

Hydraulic Presses
Hydroelectric Equipment

Strategic and Other Investments

Tianjin Port (3382.HK)
Elevators and Escalators

Business Structure

UTILITIES

Company Name	Shareholding	Principal Activities
Tianjin TEDA Tsinlien Electric Power Co., Ltd.	94.36%	Distribution of electricity in TEDA
Tianjin TEDA Tsinlien Water Supply Co., Ltd.	91.41%	Distribution of water in TEDA
Tianjin TEDA Tsinlien Heat & Power Co., Ltd.	90.94%	Distribution of steam in TEDA

PHARMACEUTICAL

Company Name	Shareholding	Principal Activities
Tianjin Yiyao Printing Co., Ltd.	43.55%	Design, manufacture and printing for pharmaceutical packaging
Tianjin Lisheng Pharmaceutical Co., Ltd.	34.41%	Manufacture and sale of chemical drugs
Tianjin Institute of Pharmaceutical Research Co., Ltd.	23.45%	Research and development of new medicine technology and new products

HOTEL

Company Name	Shareholding	Principal Activities
Tsinlien Realty Limited	100%	Operation of Courtyard by Marriott Hong Kong

ELECTRICAL AND MECHANICAL

Company Name	Shareholding	Principal Activities
Tianjin Tianfa Heavy Machinery & Hydro Power Equipment Manufacture Co., Ltd.	82.74%	Manufacture and sale of hydroelectric equipment
Tianjin Tianduan Press Co., Ltd.	64.91%	Manufacture and sale of presses and mechanical equipment

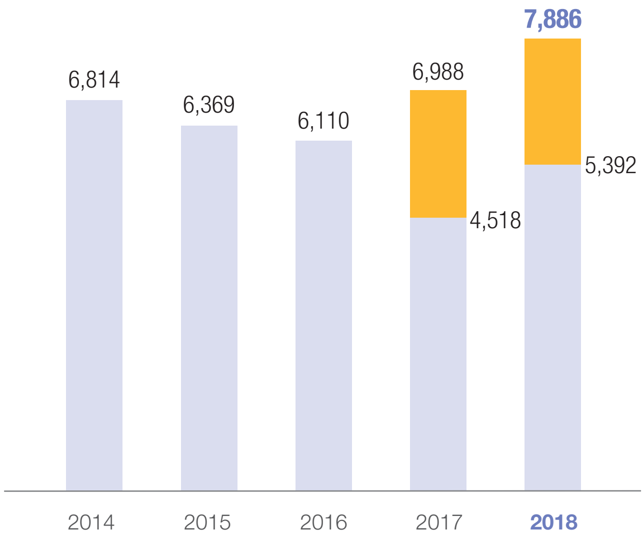
STRATEGIC AND OTHER INVESTMENTS

Company Name	Shareholding	Principal Activities
Tianjin Port Development Holdings Limited	21%	Provision of port services in Tianjin
Otis Elevator (China) Investment Company Limited	16.55%	Manufacture and sale of elevators and escalators

note: The above shareholding percentages represent effective equity interest in respective companies or group of companies.

Revenue

HK$ million

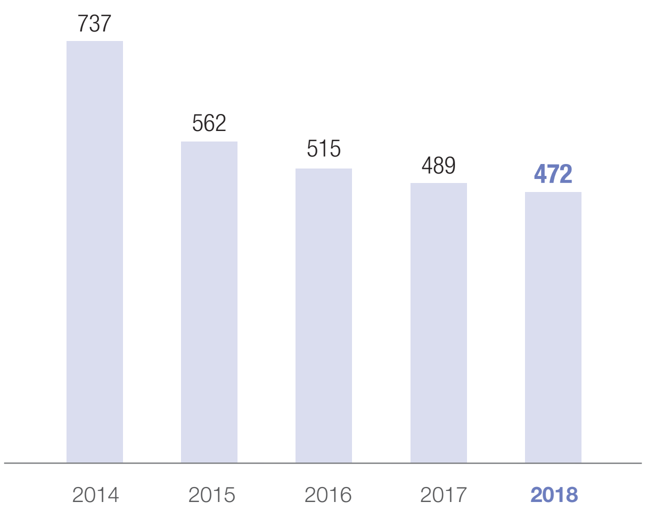


for the year ended 31 December

Result of the electricity business is separately presented from the continuing operations. The results prior to 2017 have not been restated.

Profit Attributable to Owners of the Company

HK$ million



for the year ended 31 December

Financial Highlights

SEGMENTAL ANALYSIS BY OPERATIONS

For the year ended 31 December

Revenue

	2018 HK$ million	2017 HK$ million (restated)	Changes %
Utilities (note 1)	**1,444**	1,396	3.4
Pharmaceutical (note 2)	**2,575**	1,878	37.1
Hotel	**128**	117	9.4
Electrical and mechanical	**1,245**	1,127	10.4
	5,392	4,518	19.3
Electricity business (note 1)	**2,494**	2,470	1.0
	7,886	6,988	12.9

Profit (Loss) Attributable to Owners of the Company

	2018 HK$ million	2017 HK$ million (restated)	Changes HK$ million
Utilities (note 1)	**63**	49	14
Pharmaceutical (note 2)	**490**	130	360
Hotel	**28**	18	10
Electrical and mechanical	**(123)**	(180)	57
Port services (note 3)	**(210)**	163	(373)
Elevators and escalators	**200**	221	(21)
Corporate and others	**(55)**	15	(70)
	393	416	(23)
Electricity business (note 1)	**79**	73	6
	472	489	(17)

note:

1. Both revenue and profit attributable to owners of the Company in respect of electricity business are separately presented from the continuing operations since the merger of electricity business had been committed.

2. The mixed-ownership reform in Research Institute has been completed in October 2018 and the Group's equity interest in Research Institute was reduced to 35%.

3. Impairment loss on the Group's equity interest in Tianjin Port has been recognised for the year.

General Manager's Statement

Wang Zhiyong
Executive Director and General Manager

PROFIT AND DIVIDEND FOR THE YEAR 2018

The audited consolidated profit attributable to shareholders of Tianjin Development Holdings Limited for the year ended 31 December 2018 was approximately HK$471.9 million, as compared to HK$488.8 million of last year. The Board recommends payment of a final dividend of HK4.78 cents per share for the year ended 31 December 2018. This final dividend together with the interim dividend of HK3.26 cents per share already paid, will make a total of HK8.04 cents per share for the full year of 2018, representing a decrease of 6.8% over last year.

BUSINESS OVERVIEW

In 2018, the Company has achieved expected progress in its businesses. During the year, the Company closely adhered to the policies of deepening state-owned enterprises reform and completed the mixed-ownership reform of Tianjin Institute of Pharmaceutical Research Co., Ltd. ("Research Institute") by introducing Tianjin China Merchants Tianhe Pharmaceutical Technology Development Partnership (limited partnership) (天津招商天合醫藥科技發展合夥企業（有限合夥）) as its long term strategic shareholder. With a more diversified ownership structure, it will enable Research Institute to propel its innovation initiatives in mechanisms and system as well as enhance its vitality and operational efficiency.

The utility sector recorded a solid performance during the year and achieved the expected results. In order to actively respond to the opportunities and challenges arising from the electric power system reform in the PRC, Tianjin TEDA Tsinlien Electric Power Co., Ltd. ("Tsinlien Electric"), a subsidiary of the Company, and Tianjin TEDA Electric Power Co., Ltd. ("TEDA Power") entered into the absorption and merger agreement, pursuant to which TEDA Power will absorb and full merger with Tsinlien Electric, and TEDA Power will be the surviving company upon completion of the merger. It is expected that the resulting business integration and economies of scale of TEDA Power will bring benefits to the Company.

BUSINESS OVERVIEW (Continued)

The pharmaceutical sector reported a stable growth with an annual revenue of approximately HK$2,574.8 million, representing an increase of approximately 37.1% as compared with last year, and recorded a profit of approximately HK$851.2 million. The mixed-ownership reform of Research Institute had been completed during the year and recorded a disposal gain of approximately HK$622.3 million. Despite the fact that the Company has reduced its shareholding in Research Institute, the Company will benefit in the long run in terms of the development of Research Institute's research and development product pipeline, and also its establishment of a fully integrated platform covering the entire value chain from pharmaceutical research and development to manufacturing and commercialisation. Moreover, Lisheng Pharmaceutical was awarded as one of "Top 100 Industrial Enterprises in terms of comprehensive strength in the PRC pharmaceutical industry" (二零一八中國化學製藥行業工業企業綜合實力百強) in 2018 by virtue of its good corporate reputation and quality products as well as market position in the pharmaceutical industry. Meanwhile, its own brand Shoubishan Indapamide tablets (壽比山 • 吲達帕胺片) was granted with the title of "Outstanding Enterprise Brands in anti-hypertensive category of the PRC chemical pharmaceutical industry in 2018" (二零一八中國化學製藥行業降血壓類優秀產品品牌), demonstrating the wide recognition of Lisheng Pharmaceutical in the industry.

The operation of Courtyard by Marriott Hong Kong met our expectation. Throughout the year, the average room rate increased slightly while the average occupancy rate was at approximately 91.2%, a three percentage points improvement over last year.

Electrical and mechanical business was still challenged by the slowdown in the sector. Its annual revenue increased by 10% to approximately HK$1,244.9 million and continued to record a substantial loss.

With respect to strategic investments, the profit contributions from Tianjin Port Development Holdings Limited and Otis Elevator (China) Investment Company Limited have attained our expected targets.

OUTLOOK

Looking forward to 2019, the pace of economic recovery in the world's leading economies is expected to slow down. Trade protectionism is growing and financial market risks have been piling up. Geopolitical conflicts are occurring constantly. The external environment will face more complex and severe challenges. The Chinese economy is at the crucial stage of restructuring while economic downward pressure persists. Nevertheless, the long term favourable fundamentals of China's economy remain unchanged, and it is expected that the gradual implementation of various measures will give new impetus to optimise the economic structure and improve the quality of economic development.

Following the deepening reform of state-owned enterprises, it will provide development opportunities for the Company's subsidiaries in participating the diversification of ownership structure. In the competitive and challenging environment, our solid business foundation and financial strength will enable the Company to meet any development opportunities and challenges ahead. We feel confident in the future.

I would like to take this opportunity to express my sincere gratitude to the Board members and all our staff.

Wang Zhiyong
Executive Director and General Manager

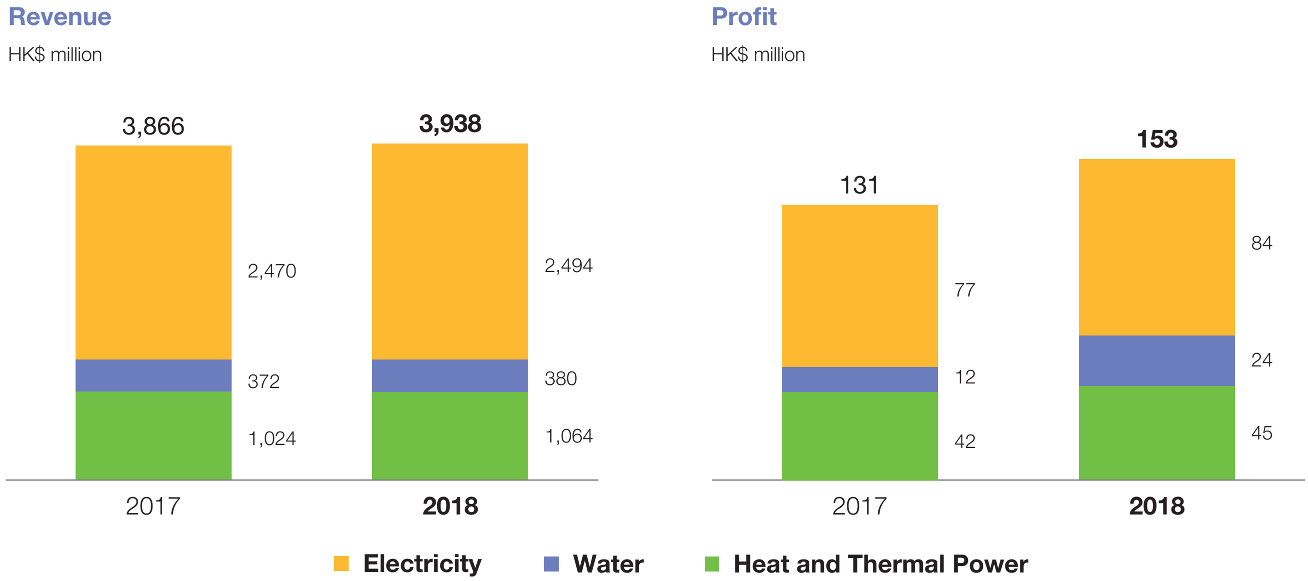
Hong Kong, 28 March 2019

BUSINESS REVIEW

Utilities

The Group's utility businesses are mainly operated in the TEDA through supplying electricity, water, heat and thermal power to industrial, commercial and residential customers.

TEDA, located at the centre of Bohai economic rim, is a national development zone and an ideal place for manufacturing and R&D developments. TEDA plays a leading role over the past three decades in Tianjin's economic development.



Electricity

Tianjin TEDA Tsinlien Electric Power Co., Ltd. ("Electricity Company") is principally engaged in supply of electricity in TEDA. It also provides services in relation to maintenance of power supply equipment and technical consultancy. Currently the installed transmission capacity of Electricity Company is approximately 706,000 kVA (2017: 706,000 kVA).

In 2018, revenue from the Electricity Company was approximately HK$2,494.4 million, an increase of 1% from HK$2,470.2 million last year. Profit increased HK$6.8 million to approximately HK$84.2 million from HK$77.4 million last year. This was primarily due to higher volumes of electricity sold and lower operating costs, partly offset by lower operating margins as a result of the decline in electricity tariff. The total quantity of electricity sold for the year was approximately 3,171,237,000 kWh, an increase of 9.7% over last year.

On 6 December 2018, Electricity Company and Tianjin TEDA Electric Power Co., Ltd. (天津泰達電力有限公司) ("TEDA Power") entered into the absorption and merger agreement, pursuant to which, TEDA Power will absorb and merger with Electricity Company, and TEDA Power will be the surviving company upon completion of the merger and will take up and assume all the assets, liabilities and business operations of Electricity Company. Electricity Company will then be deregistered and ceased to exist as a legal entity. Upon the completion of merger, TEDA Power will be owned as to approximately 47.09% and 52.91% by the Group and Tianjin TEDA Investment Holding Co., Ltd. (天津泰達投資控股有限公司) respectively, and the Group will continue to participate in the electricity business through its 47.09% equity interest in TEDA Power. Details of the merger were set out in the announcement and the circular of the Company dated 6 December 2018 and 31 January 2019 respectively.

Water

Tianjin TEDA Tsinlien Water Supply Co., Ltd. ("Water Company") is principally engaged in supply of tap water in TEDA. It also provides services in installation and maintenance of water pipes, technical consultancy, retail and wholesale of water pipes and related parts. The daily water supply capacity of the Water Company is approximately 425,000 tonnes (2017: 425,000 tonnes).

In 2018, revenue from the Water Company was approximately HK$380.5 million, an increase of 2.2% from HK$372.3 million last year. The Water Company recorded a profit of approximately HK$23.6 million, an increase of HK$11.3 million from HK$12.3 million in 2017. This was mainly attributable to higher volumes of water sold and lower operating costs, partly offset by decrease in government supplemental income. The total quantity of water sold for the year was approximately 55,223,000 tonnes, representing an increase of 3.9% over last year.

Heat and Thermal Power

Tianjin TEDA Tsinlien Heat & Power Co., Ltd. ("Heat & Power Company") is principally engaged in distribution of steam and heat for industrial, commercial and residential customers within TEDA. The Heat & Power Company has steam transmission pipelines of approximately 462 kilometres (2017: 360 kilometres) and more than 120 processing stations (2017: 105 processing stations) in TEDA. The daily distribution capacity is approximately 30,000 tonnes of steam.

In 2018, the Heat and Power Company reported revenue of approximately HK$1,063.6 million, an increase of 3.9% from HK$1,023.6 million last year. Profit from the Heat and Power Company was approximately HK$45.5 million, an increase of 9.4% from HK$41.6 million in 2017. The increase in profit was primarily due to higher volumes of steam sold. The total quantity of steam sold for the year was approximately 3,529,000 tonnes, representing an increase of 6.5% over last year.

Pharmaceutical

Pharmaceutical segment is principally engaged in the production and sale of chemical drugs, and research and development of new medicine technology and new products as well as design, manufacture and printing for pharmaceutical packaging in the PRC.

In 2018, revenue from pharmaceutical segment was approximately HK$2,574.8 million, an increase of 37.1% from HK$1,877.8 million last year. Of the total segment revenue, revenue from sale of pharmaceutical products was approximately HK$2,357.2 million, an increase of 43.1% from HK$1,647.7 million in 2017. Revenue from provision of research and development services and other pharmaceutical related operations was approximately HK$119.4 million, a decrease of 7.9% over last year. Revenue from sale of packaging materials amounted to approximately HK$98.2 million, broadly maintained at the same level of previous year.

On 6 August 2018, TianJin Jinhao Pharmaceutical Co., Ltd. (天津金浩醫藥有限公司) ("Jinhao Pharmaceutical"), an indirect non-wholly owned subsidiary of the Company, entered into a joint cooperation agreement with Tianjin China Merchants Tianhe Pharmaceutical Technology Development Partnership (limited partnership) (天津招商天合醫藥科技發展合夥企業（有限合夥）) ("China Merchants Tianhe") in relation to the disposal of part of the equity interest in Tianjin Institute of Pharmaceutical Research Co., Ltd. (天津藥物研究院有限公司) ("Research Institute") by Jinhao Pharmaceutical to China Merchants Tianhe through a combination of (i) China Merchants Tianhe, as investor, agreed to inject an aggregate sum of RMB1,004,000,000 by way of cash contribution into Research Institute, in which, RMB33,889,796 will be contributed as the additional registered capital of Research Institute (amounting to approximately 46.5% of the enlarged registered capital), and the balance of RMB970,110,204 will be contributed towards the capital reserve of Research Institute; and (ii) Jinhao Pharmaceutical agreed to transfer part of its shares in Research Institute (amounting to approximately 18.5% of the enlarged registered capital) to China Merchants Tianhe for a consideration of RMB399,270,000 (the "Disposal"). Upon the completion of the Disposal on 31 October 2018, Research Institute was held as to 35% and 65% respectively by Jinhao Pharmaceutical and China Merchants Tianhe, and the Group recognised a Disposal gain of HK$622,323,000. The Group continues to participate in the business of research and development of new medicine technology and new products through its 35% equity interest in Research Institute after the Disposal. Details of the Disposal were disclosed in the Company's announcements dated 29 May 2018 and 6 August 2018 and circular dated 10 September 2018 respectively.

Pharmaceutical (Continued)

If not taking into account the Disposal gain and the fair value gain of HK$73.6 million in respect of profit guarantee and impairment charge of HK$21 million on property, plant and equipment in 2017, profit from pharmaceutical segment amounted to approximately HK$228.9 million, an increase of HK$65.4 million from HK$163.5 million last year on the like-for-like basis. This result was largely driven by revenue growth and higher operating margins in sale of pharmaceutical products as well as lower administrative expenses, partly offset by higher selling and distribution expenses, particularly in connection with the business exploration and sales network expansion.

Hotel

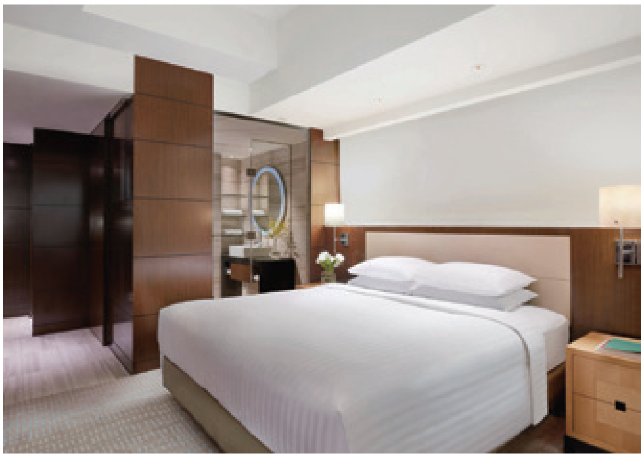
Courtyard by Marriott Hong Kong ("Courtyard Hotel"), situated in a prime location on the Hong Kong Island, is a 4-star hotel with 245 guest rooms. It is positioned as an ideal lodge for business and leisure travellers.

In 2018, Courtyard Hotel reported revenue of approximately HK$127.7 million, an increase of 9.4% from HK$116.7 million last year. Profit increased 53.5% to approximately HK$28.4 million from HK$18.5 million in 2017. The average room rate increased slightly and the average occupancy rate was approximately 91.2%, three percentage points improvement over last year.

Electrical and Mechanical

Electrical and mechanical segment is principally engaged in the manufacture and sale of presses, mechanical and hydroelectric equipment as well as large scale pump units in the PRC.

In 2018, revenue from electrical and mechanical segment was approximately HK$1,244.9 million, representing an increase of 10.4% over last year. Loss from electrical and mechanical segment was approximately HK$138.7 million compared to HK$235.5 million in last year. Stripping out the gain of HK$47.4 million on additional compensation in connection with plant relocation and impairment loss of HK$40.5 million on property, plant and equipment made related to hydroelectric equipment business, the loss would have been approximately HK$145.6 million, compared to a loss of HK$177.6 million in 2017 on a like-for-like basis. The result was primarily attributable to narrow operating margins in hydroelectric equipment business and higher distribution expenses, partly offset by lower construction contracts cost estimate adjustments incurred in hydroelectric equipment business.



Strategic and Other Investments

Port Services

As at 31 December 2018, the Group has 21% equity interest in Tianjin Port Development Holdings Limited ("Tianjin Port") (stock code: 3382). Tianjin Port is engaged in the provision of port services including container and cargo handling services, sales and other port ancillary services in Tianjin, the PRC.

During the year, the revenue of Tianjin Port decreased by 4.5% to approximately HK$15,871.1 million and profit attributable to owners of Tianjin Port was approximately HK$430.1 million, representing a decline of 44.4% compared with 2017.

Tianjin Port contributed to the Group a profit of approximately HK$90.3 million, representing a decrease of 44.5% over last year. The Group carried out an impairment assessment for its equity interest in Tianjin Port which has an impairment indicator and as a result an impairment loss of HK$300 million has been recognised in the consolidated income statement for the year.

Elevators and Escalators

As at 31 December 2018, the Group has 16.55% equity interest in Otis Elevator (China) Investment Company Limited ("Otis China"). Otis China is engaged in the manufacture and sale of elevators and escalators in the PRC.

During the year, the revenue of Otis China amounted to approximately HK$19,152.5 million, representing an increase of 7.4% compared with 2017.

Otis China contributed to the Group a profit (after non-controlling interests) of approximately HK$200.2 million, representing a decline of 9.3% over last year.

Investment in Binhai Investment Company Limited

As at 31 December 2018, the Group has 4.69% equity interest in Binhai Investment Company Limited ("Binhai Investment") (stock code: 2886) and on that date, the market value of the Group's interest in Binhai Investment was approximately HK$68.9 million (2017: approximately HK$85.8 million) and the unrealised fair value loss of approximately HK$26.8 million (2017: a loss of approximately HK$13.4 million) was recognised in other comprehensive expense.

PROSPECT

Looking forward to 2019, the pace of economic recovery in the world's leading economies is expected to slow down. Trade protectionism is growing and financial market risks have been piling up. Geopolitical conflicts are occurring constantly. The external environment will face more complex and severe challenges. The Chinese economy is at the crucial stage of restructuring while economic downward pressure persists. Nevertheless, the long term favourable fundamentals of China's economy remain unchanged, and it is expected that the gradual implementation of various measures will give new impetus to optimise the economic structure and improve the quality of economic development.

Following the deepening reform of state-owned enterprises, it will provide development opportunities for the Company's subsidiaries in participating the diversification of ownership structure. In the competitive and challenging environment, our solid business foundation and financial strength will enable the Company to meet any development opportunities and challenges ahead.

LIQUIDITY, CAPITAL RESOURCES AND PRINCIPAL RISK

As at 31 December 2018, the Group's total cash on hand and total bank borrowings stood at approximately HK$6,952.5 million and HK$2,156.6 million respectively (2017: approximately HK$7,396.1 million and HK$2,348.5 million respectively).

The Group's sources of funding comprise cash flow generated from operations and loan facilities. The bank borrowings of HK$2,156.6 million (2017: approximately HK$491.9 million) will mature within one year.

The gearing ratio as measured by total borrowings to shareholders' funds was at approximately 19% as at 31 December 2018 (2017: approximately 21%).

Of the total HK$2,156.6 million bank borrowings outstanding as at 31 December 2018, HK$1,795.9 million were subject to floating rates with a spread of 1.7% over HIBOR of relevant interest periods, RMB306 million (equivalent to approximately HK$349.3 million) were fixed-rate debts with annual interest rates at 4.35% to 6.00%, and RMB10 million (equivalent to approximately HK$11.4 million) were floating-rate debts with annual interest rates at 4.9%.

As at 31 December 2018, 83.3% (2017: 76.3%) of the Group's total bank borrowings was denominated in Hong Kong dollar, 16.7% (2017: 23.7%) was denominated in Renminbi.

The Group's activities expose it to a variety of financial risks. The major financial assets and financial liabilities of the Group include cash and cash equivalents, entrusted deposits, other financial assets and bank borrowings. The Group's financial risk management is aimed at mitigating the impact of fluctuations in interest rates and exchange rates on the Group's overall financial position and to minimise the Group's interest rate, foreign currency and credit risk exposures. The Group regularly reviews its liquidity and financing requirements to ensure that sufficient financial resources are maintained to cover the funding needs.

During the year, the Group has not entered into any derivative contracts or hedging transactions. The Group manages its foreign currency risk by closely reviewing the movement of the foreign currency rate and shall consider hedging foreign currency exposure should the need arise.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2018, the Group had a total of approximately 4,179 employees (2017: 5,264) of which approximately 474 (2017: 516) were management personnel and 952 (2017: 1,816) were technical staff, with the balance being production workers.

The Group contributes to an employee pension scheme established by the PRC government which undertakes to assume the retirement benefit obligations of all existing and future retired employees of the Group in the PRC. The Group also contributes to a mandatory provident fund scheme for all Hong Kong employees. The contributions are based on a fixed percentage of the employees' salaries.

CHARGE ON ASSETS

As at 31 December 2018, restricted bank balances, land use rights and buildings of HK$231.1 million (2017: HK$94.5 million), HK$67.7 million (2017: HK$149.9 million) and HK$368.6 million (2017: HK$450.9 million) were respectively pledged to financial institutions by the Group to secure general banking facilities.

FINAL DIVIDENDS

The Board recommends the payment of a final dividend of HK4.78 cents per share for the year ended 31 December 2018 (2017: HK4.55 cents per share) to the shareholders whose names appear on the Company's register of members on 14 June 2019. Subject to the approval by the shareholders at the forthcoming annual general meeting of the Company to be held on 5 June 2019, the final dividend will be paid on 12 July 2019.

The final dividend together with the interim dividend of HK3.26 cents per share paid on 29 October 2018 makes a total of HK8.04 cents per share for the year (2017: HK8.63 cents per share).

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 31 May 2019 (Friday) to 5 June 2019 (Wednesday), both days inclusive, during which period no transfer of shares will be registered. In order to determine the entitlement to attend and vote at the annual general meeting of the Company, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrar, Tricor Tengis Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on 30 May 2019 (Thursday).

The register of members of the Company will be closed from 12 June 2019 (Wednesday) to 14 June 2019 (Friday), both days inclusive, during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend, all completed transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrar, Tricor Tengis Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:30 p.m. on 11 June 2019 (Tuesday).

Biographical Details of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. WANG Zhiyong, aged 47, was appointed as an Executive Director of the Company on 27 October 2009 and the General Manager of the Company on 16 July 2014. He is also a member of the Remuneration Committee, the Nomination Committee and the Investment Committee of the Company. Mr. Wang is currently the Chairman of Tsinlien Group Company Limited (津聯集團有限公司) ("Tsinlien") and Tianjin Tsinlien Investment Holdings Co., Ltd. (天津津聯投資控股有限公司), both being controlling shareholders of the Company. He was formerly the manager of the Finance Department, deputy general manager and general manager of Tsinlien Group (Tianjin) Asset Management Company Limited (津聯集團（天津）資產管理有限公司) ("Tsinlien Group (Tianjin) Asset"), a wholly-owned subsidiary of Tsinlien. Prior to joining Tsinlien Group (Tianjin) Asset in 1998, he was the head of operations of the International Department of Northern International Trust and Investment Company Limited (北方國際信託投資股份有限公司). Mr. Wang graduated from Nankai University in 1994 with a Bachelor's Degree of International Finance, he passed the examination for on-the-job Postgraduate Master's Programme for Currency and Banking of Nankai University in 2000 and he also obtained a Master's Degree in Global Economy from Nankai University in 2009. In 2006, Mr. Wang was awarded the title of Outstanding Section Cadre Leader of Work Committee of Developing Area and Bonded Area. Tsinlien Group (Tianjin) Asset was also awarded the titles of Civilized Unit at Municipal Level as well as Outstanding Section Leaders of Developing Area and Bonded Area.

Dr. CUI Di, aged 52, was appointed as an Executive Director of the Company on 1 December 2013 and Deputy General Manager of the Company on 18 February 2014. Dr. Cui graduated from the Tianjin University of Finance and Economics with a Bachelor's Degree in Economics in 1988, and obtained a Master's Degree in Economics in 2002 and a Doctoral Degree in Economics from Nankai University in 2009. She joined the Company since July 2009 and has served as deputy general manager of Tianjin Development Assets Management Co., Ltd. (天津發展資產管理有限公司), a wholly-owned subsidiary of the Company, and later concurrently as general manager of Tsinlien Group (Tianjin) Asset Management Company Limited (津聯集團（天津）資產管理有限公司). Prior to joining the Company, she has worked in various roles including deputy general manager of 天津立達（集團）進出口有限公司 (Tianjin Leadar (Group) Import & Export Co., Ltd.), deputy commissioner for treasury of 天津立達（集團）有限公司 (Tianjin Leadar (Group) Co., Ltd.) and was with Tianjin Liho Group as assistant to general manager. Dr. Cui is currently a director of Tsinlien Group Company Limited (津聯集團有限公司) and Tianjin Tsinlien Investment Holdings Co., Ltd. (天津津聯投資控股有限公司). She has extensive experience in corporate management, finance and trading.

Dr. YANG Chuan, aged 50, was appointed as an Executive Director of the Company on 26 March 2015. Dr. Yang is a chief senior economist, graduated from the Tianjin University of Finance and Economics with a Bachelor's Degree in Economics in 1990, and obtained a Master's Degree in Economics in 1996 and a Doctoral Degree in Economics from Nankai University in 2001. Dr. Yang is currently the general manager of Tianjin Tai Kang Investment Co., Ltd. (天津泰康投資有限公司) ("Tai Kang"), a non-wholly owned subsidiary of the Company, the chairman of Benefo Financial Leasing Co., Ltd. (百利融資租賃有限公司), an associate of the Company, and concurrently assistant to general manager of Tianjin BENEFO Machinery Equipment Group Co., Ltd. (天津百利機械裝備集團有限公司). He was also the chairman of Tai Kang during the period from May 2013 to November 2015. Prior to joining Tai Kang, he had served in various executive roles including the chairman and general manager of Zowee Department Stores Group Stock Co., Ltd. (中原百貨集團股份有限公司), the chairman and general manager of Tianjin Hi-Tech Development Co., Ltd. (天津海泰科技發展股份有限公司) (Stock Code: 600082), a company whose shares are listed on the Shanghai Stock Exchange, as well as the general manager of Maigou (Tianjin) Group Co., Ltd. (麥購（天津）集團有限公司). Dr. Yang has extensive experience in capital operation and corporate management.

NON-EXECUTIVE DIRECTORS

Mr. CHEUNG Wing Yui, Edward, *BBS*, aged 69, was appointed as an independent non-executive director of the Company in November 1997 and re-designated as Non-Executive Director of the Company in September 2004. Mr. Cheung received a Bachelor of Commerce Degree in Accountancy from the University of New South Wales, Australia and is a member of CPA Australia. He has been a practicing solicitor in Hong Kong since 1979 and is a consultant of the law firm Woo Kwan Lee & Lo. He was admitted as a solicitor in the United Kingdom and as an advocate and solicitor in Singapore. Mr. Cheung is a director of a number of companies listed on the Stock Exchange, namely being a deputy chairman and a non-executive director of SmarTone Telecommunications Holdings Limited (Stock Code: 315) and SUNeVision Holdings Ltd. (Stock Code: 1686), a non-executive director of Tai Sang Land Development Limited (Stock Code: 89) and Transport International Holdings Limited (Stock Code: 62). In addition, he is currently a board member of The Community Chest of Hong Kong, a court member of The Open University of Hong Kong and the Honorary Council Member of the Hong Kong Institute of Directors Limited. He has held the position of the deputy chairman of The Open University of Hong Kong, a member of the Labour and Welfare Department's Lump Sum Grant Steering Committee, a member of the Appeal Board established under the Accreditation of Academic and Vocational Qualifications Ordinance, a member of the Board of Review (Inland Revenue Ordinance), the deputy chairman of the Hong Kong Institute of Directors Limited, a director of Po Leung Kuk, the vice chairman of the Mainland Legal Affairs Committee of the Law Society of Hong Kong. He also served as an independent non-executive director of Hop Hing Group Holdings Limited (Stock Code: 47) (until 25 August 2017) and Agile Group Holdings Limited (Stock Code: 3383) (until 13 February 2018). Mr. Cheung was awarded the Bronze Bauhinia Star (BBS) in 2013. He was awarded an honorary degree of Doctor of Business Administration from the Open University of Hong Kong in 2016.

Dr. CHAN Ching Har, Eliza, *JP, BBS, LL.D. (Hon)*, aged 62, was appointed as Non-Executive Director of the Company on 27 October 2009. She is also a member of the Investment Committee of the Company. Dr. Chan is a Senior Consultant of Zhong Lun Law Firm. She is a Member of the National Committee of the Chinese People's Political Consultative Conference (CPPCC), a Standing Member of the CPPCC Tianjin Committee, Foreign Economic Affairs Legal Counsel to the Tianjin Municipal People's Government, an arbitrator of the China International Economic and Trade Arbitration Commission (CIETAC), and a China-Appointed Attesting Officer appointed by the Ministry of Justice. Dr. Chan served as Chairman of the Hong Kong CPPCC (Provincial) Members Association Ltd., Chairman of the Hong Kong CPPCC (Provincial) Members Association Foundation Ltd., Member of the Hong Kong Hospital Authority, Chairman of Kowloon Hospital, Chairman of Hong Kong Eye Hospital, Member of the Hong Kong Public Service Commission, Member of the Board of Education, Member of the Hong Kong Examination and Assessment Authority, Member of The Medical Council of Hong Kong, Chairman of Pensions Appeal Panel, Member of the Administrative Appeals Board, Member of Hospital Governing Committee of Queen Elizabeth Hospital, Member of the Hong Kong Immigration Tribunal, Council Member of The Hong Kong University of Science and Technology and Member of the Board of the Hong Kong Science and Technology Park Corporation. She is presently Chairman of Tseung Kwan Hospital, Honorary Chairman of the Hong Kong CPPCC (Provincial) Members Association Ltd., Honorary President of The Hong Kong China Chamber of Commerce and Governor of The Canadian Chamber of Commerce in Hong Kong. Dr. Chan is an independent non-executive director of Cathay International Holdings Limited, a company whose shares are listed on the London Stock Exchange; and an independent non-executive director of Tong Ren Tang Technologies Co., Ltd. (Stock Code: 1666), a company whose shares are listed on the Hong Kong Stock Exchange.

Biographical Details of Directors and Senior Management

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. CHENG Hon Kwan, *GBS, JP*, aged 91, was appointed as an Independent Non-Executive Director of the Company in June 2001. Dr. Cheng has also been serving as the Chairman of the Remuneration Committee, a member of the Audit Committee and the Nomination Committee of the Company. Dr. Cheng obtained his Bachelor's Degree in Civil Engineering from Tianjin University and a postgraduate diploma from Imperial College of Science and Technology, London. He has been awarded Honorary Doctoral Degrees from Hong Kong University of Science and Technology, City University of Hong Kong, Open University of Hong Kong, and Open University, UK. He is a Fellow of Imperial College and City and Guilds London Institute. He is a past President, Honorary Fellow and Gold Medallist of the Hong Kong Institution of Engineers; past Vice President, Fellow and Gold Medallist of the Institution of Structural Engineers, Fellow of the Institution of Civil Engineers, United Kingdom and the American Society of Civil Engineers and Honorary Fellow of Engineers Australia. He is also an Honorary Member of the Hong Kong Institute of Planners and the Hong Kong Institute of Architects; State Class I Registered Structural Engineer Qualification. He is also an authorized person and registered structural engineer. Dr. Cheng is a former Chairman of Hong Kong Housing Authority and Transport Advisory Committee. He was a Standing Member of the Tianjin Committee of the Chinese People's Political Consultative Conference (CPPCC) and is a permanent Honorary Chairman of the Hong Kong Tianjin Friendship Association and Chairman of the Tianjin CPPCC Former Hong Kong and Macau Members Friendship Association. Dr. Cheng is currently an independent non-executive director of Agile Group Holdings Limited (Stock Code: 3383), a company whose shares are listed on the Stock Exchange. He also served as an independent non-executive director of Hang Lung Group Limited (Stock Code: 10) and Hang Lung Properties Limited (Stock Code: 101) until 29 April 2015, both companies are listed on the Stock Exchange.

Mr. MAK Kwai Wing, Alexander, *BSoc.Sc., ATIHK, FCPA (Aust.)*, aged 69, was appointed as an Independent Non-Executive Director of the Company on 27 October 2009. He is also the Chairman of the Investment Committee, a member of the Audit Committee, the Remuneration Committee and the Nomination Committee of the Company. Mr. Mak graduated from The University of Hong Kong with a degree of Bachelor of Social Science. He is also a Fellow of CPA Australia and an associate of The Taxation Institute of Hong Kong. Mr. Mak has over 40 years of experience in the taxation field. He has extensive experience in Hong Kong corporate and individual tax planning and has assisted a vast number of clients in South East Asia in developing effective tax strategies to minimize their tax exposure in the region. Mr. Mak was formerly an assessor with the Inland Revenue Department. In July 2006, he joined Mazars Tax Services Limited ("Mazars") as an executive director, became its managing director in January 2008 and then Senior Advisor from September 2014 to June 2017. Before joining Mazars, Mr. Mak was a tax principal in Ernst & Young and took an early retirement in January 2004 to pursue his governorship of Rotary International District 3450 and also his own consulting business. Currently, Mr. Mak is a member of Hong Kong Professional Consultants Association, the Treasurer of Senior Citizen Home Safety Association and an independent non-executive director of K & P International Holdings Limited (Stock Code: 675), a company whose shares are listed on the Stock Exchange. Previously, Mr. Mak had served as the chairman of Tax Specialization Development Working Group of Hong Kong Institute of Certified Public Accountants, the president of The Taxation Institute of Hong Kong; the vice chairman of Steering Committee of Hong Kong Network of Virtual Enterprises; the governor of Rotary International District 3450; the chairman of Practice Firm Steering Committee of Hong Kong Institute of Vocational Education (Tsing Yi) and District Rotary Foundation Committee of Rotary International District 3450; a treasurer of The Hong Kong Road Safety Association, H5N1 Concern Group and The Hong Kong International Film Festival Society Limited; a member of taxation committee of Hong Kong Institute of Certified Public Accountants; a member of the Road Safety Council, Joint Liaison Committee on Taxation, Hospital Authority Public Complaints Committee, Hospital Governing Committee of Hong Kong Eye Hospital and Kowloon Hospital; and a part-time member of Hong Kong Government's Central Policy Unit.

INDEPENDENT NON-EXECUTIVE DIRECTORS (Continued)

Ms. NG Yi Kum, Estella, aged 61, was appointed as an Independent Non-Executive Director of the Company on 28 July 2010. She is also the Chairman of the Audit Committee and a member of the Nomination Committee of the Company. Ms. Ng is the Deputy Chairman and Executive Director, Chief Strategy Officer & Chief Financial Officer and Company Secretary of Tse Sui Luen Jewellery (International) Limited (Stock Code: 417), a company whose shares are listed on the Stock Exchange. From January 2008 to April 2014, Ms. Ng was the Chief Financial Officer of Country Garden Holdings Company Limited (Stock Code: 2007), a company whose shares are listed on the Stock Exchange. From September 2005 to November 2007, she was an executive director of Hang Lung Properties Limited ("Hang Lung") (Stock Code: 101), a company whose shares are listed on the Stock Exchange. Prior to her joining in Hang Lung in 2003, she was employed by the Stock Exchange in a number of senior positions, most recently as senior vice president of the Listing Division. Prior to that, she gained valuable auditing experience with Deloitte Touche Tohmatsu. Ms. Ng is a qualified accountant and holds a Master of Business Administration degree from the Hong Kong University of Science and Technology. She is an associate of The Institute of Chartered Accountants in England and Wales, The Institute of Chartered Secretaries and Administrators, a fellow of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants and a member of the American Institute of Certified Public Accountants. She has also contributed her time to various public service appointments, including being a co-opted member of the audit committee of the Hospital Authority until November 2013. Ms. Ng is currently an independent non-executive director of China Power Clean Energy Development Company Limited (Stock Code: 735) and Comba Telecom Systems Holdings Limited (Stock Code: 2342), both companies are listed on the Stock Exchange. She served as an independent director of DS Healthcare Group, Inc. until 16 May 2017, a company whose shares were previously listed on the Nasdaq Capital Market in the United States until 23 December 2016, and an independent non-executive director of China Mobile Games and Entertainment Group Limited until 10 August 2015, a company whose shares are listed by way of American Depositary Shares on the Nasdaq Global Market in the United States. Ms. Ng also served as an independent non-executive director of Hong Kong Resources Holdings Company Limited (Stock Code: 2882) until 31 July 2015.

INDEPENDENT NON-EXECUTIVE DIRECTORS (Continued)

Mr. WONG Shiu Hoi, Peter, aged 78, was appointed as an Independent Non-Executive Director of the Company on 21 December 2012. He is also a member of the Audit Committee of the Company. Mr. Wong holds a Master of Business Administration Degree from the University of East Asia, Macau (now known as the University of Macau). He possesses over 40 years of experience in the financial services industry. Mr. Wong is the past chairman of The Hong Kong Institute of Directors and was a director of the Hong Kong Securities and Investment Institute, an executive director, deputy chairman and chief executive of Haitong International Securities Group Limited as well as an overseas business advisor of Haitong Securities Company Limited. He is currently a consultant of Halcyon Holdings Limited and an advisor of Our Hong Kong Foundation. Mr. Wong is also an independent non-executive director of High Fashion International Limited (Stock Code: 608), Agile Group Holdings Limited (Stock Code: 3383) and Target Insurance (Holdings) Limited (Stock Code: 6161), all companies are listed on the Stock Exchange.

Dr. LOKE Yu, alias LOKE Hoi Lam, aged 69, was appointed as an Independent Non-Executive Director of the Company on 21 December 2012. He is also a member of the Audit Committee of the Company. Dr. Loke holds a Master of Business Administration Degree from the Universiti Teknologi Malaysia and a Doctor of Business Administration Degree from University of South Australia. He is a Fellow member of The Institute of Chartered Accountants in England and Wales, Hong Kong Institute of Certified Public Accountants and The Hong Kong Institute of Chartered Secretaries. He is also a member of The Hong Kong Independent Non-Executive Director Association. Dr. Loke has over 40 years of experience in accounting and auditing for private and public companies, financial consultancy and corporate management. He serves as an independent non-executive director of Matrix Holdings Limited (Stock Code: 1005), V1 Group Limited (Stock Code: 82), CIMC-TianDa Holdings Company Limited (formerly China Fire Safety Enterprise Group Limited) (Stock Code: 445), Zhong An Real Estate Limited (Stock Code: 672), Chiho Environmental Group Limited (formerly Chiho-Tiande Group Limited) (Stock Code: 976), Tianhe Chemicals Group Limited (Stock Code: 1619), Lamtex Holdings Limited (Stock Code: 1041), Forebase International Holdings Limited (Stock Code: 2310), Hang Sang (Siu Po) International Holding Company Limited (Stock Code: 3626), Hong Kong Resources Holdings Company Limited (Stock Code: 2882), Zhenro Properties Group Limited (Stock Code: 6158), TC Orient Lighting Holdings Limited (Stock Code: 515) and TradeGo FinTech Limited (Stock Code: 8017), all of these companies are listed on the Stock Exchange. He also served as an independent non-executive director of Mega Medical Technology Limited (Stock Code: 876) (until 11 January 2017), Winfair Investment Company Limited (Stock Code: 287) (until 3 April 2018), China Household Holdings Limited (Stock Code: 692) (until 6 August 2018), SCUD Group Limited (Stock Code: 1399) (until 27 September 2018) and China Beidahuang Industry Group Holdings Limited (Stock Code: 39) (until 1 November 2018).

SENIOR MANAGEMENT

Mr. JIN Baoxin, aged 53, Deputy General Manager of the Company. Mr. Jin is a senior economist, graduated from the Tianjin University of Finance and Economics with a Bachelor's Degree in Economics major in International Finance in 1988 and a Master's Degree in Economics from Nankai University in 2001. Prior to joining the Company, he has worked in various role including deputy manager of treasury department of Tianjin International Trust and Investment Corporation (天津市國際信託投資公司), assistant to president and concurrently manager of strategic planning department of Tianjin International Investment Co., Ltd. (天津國際投資有限公司) as well as assistant to president and concurrently manager of direct finance department of Tianjin Financial Investment and Services Group Co., Ltd. (天津津融投資服務集團有限公司). Mr. Jin has extensive experience in capital market. He is currently a director of Tsinlien Group Company Limited (津聯集團有限公司) and Tianjin Tsinlien Investment Holdings Co., Ltd. (天津津聯投資控股有限公司).

Mr. TUEN Kong, Simon, aged 56, Deputy General Manager and Chief Financial Officer of the Company. He also served as an Executive Director and Company Secretary of the Company from 27 March 2013 to 6 June 2017. Mr. Tuen graduated from the Hong Kong Polytechnic University with a Master Degree in Business Management. Before joining the Company, he had held various positions in a number of listed companies and is experienced in corporate finance and treasury management. Starting with Ernst & Young in 1989 and then Deloitte Touche Tohmatsu in 1991 as a tax consultant, he spent 10 years afterwards in corporate banking, direct investment, merger and acquisition and company secretarial related works and held executive positions as vice president and director of finance and treasury. From 2001 to 2006, he served as Deputy General Manager of the Company. Prior to re-joining the Company in October 2009, he worked as a consultant for China investment with MTR Corporation Limited.

Ms. SHI Jing, aged 48, Assistant to General Manager of the Company. Ms. Shi graduated from the Tianjin University of Finance and Economics with a Bachelor's Degree in Economics in 1992 and a Master's Degree in Economics in 1995. She has been in corporate finance (domestic and foreign) and financial management for many years. Ms. Shi joined the Company since 2005 and has served in various roles including manager of finance department of Tianjin Development Assets Management Co., Ltd. (天津發展資產管理有限公司) and general manager of audit and legal affairs department of the Company. Prior to joining the Company, she was a commissioner of finance of Ting Hsin International Group (頂新國際集團), vice president of Fengyuan Consulting (Shanghai) Co., Ltd. (豐元諮詢（上海）有限公司) and senior associate of finance department of Tingyi (Cayman Islands) Holding Corp. Ms. Shi is currently a director of Tsinlien Group Company Limited (津聯集團有限公司) and the assistant to general manager of Tianjin Tsinlien Investment Holdings Co., Ltd. (天津津聯投資控股有限公司). She is also an executive director of Tianjin Port Development Holdings Limited (Stock Code: 3382), a non-executive director of Dynasty Fine Wines Group Limited (Stock Code: 828), as well as a director of Tianjin Lisheng Pharmaceutical Co., Ltd. (天津力生製藥股份有限公司) (Stock Code: 002393.SZ). Ms. Shi also served as a non-executive director of Binhai Investment Company Limited (Stock Code: 2886) until 26 July 2018.

Mr. CHONG Ching Hei, aged 46, Financial Controller of the Company. Mr. Chong graduated from the Hong Kong Polytechnic University with a Master's Degree in Professional Accounting. He was admitted as a member of the Hong Kong Institute of Certified Public Accountants in October 1999 and has extensive experience in auditing and corporate finance. Mr. Chong previously worked for Deloitte Touche Tohmatsu for over seven years. During the period from 2004 to 2006, he served as a financial controller and company secretary of Coastal Rapid Transit Company Limited, a wholly-owned subsidiary of the Company. Prior to re-joining the Company in July 2013, Mr. Chong was the financial controller and company secretary of Jianhua Concrete Pile Holdings Limited.

Ms. LEE Su Yee, Bonnia, aged 41, Company Secretary of the Company. Ms. Lee graduated from the City University of Hong Kong with a Master of Science Degree in Professional Accounting and Corporate Governance. She is a Chartered Secretary, a Chartered Governance Professional and an associate of both The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators of the United Kingdom. She is also a holder of the Practitioner's Endorsement from The Hong Kong Institute of Chartered Secretaries. Ms. Lee joined the Company since October 2010 as an assistant company secretary and has extensive experience in company secretarial practice.

Environmental, Social and Governance Report

This Environmental, Social, and Governance ("ESG") Report is prepared in accordance with the Environmental, Social and Governance Reporting Guide (the "HKEx ESG Guide") as set out in Appendix 27 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and aims to provide stakeholders a comprehensive overview on our ESG policies, initiatives as well as performance.

This ESG report covers Tianjin Development Holdings Limited's ("the Group", "we", "our" or "us") principal operating segments of utilities, pharmaceutical and electrical and mechanical for the period from 1 January to 31 December 2018 (the "Reporting Period", "FY 2018"). The report includes only material ESG issues which are identified by the Group through materiality assessment and directly controlled by the Group.

The Group is committed to incorporating sustainability into its daily operations and understanding stakeholders' expectations of its ESG practices. An ESG working group, comprising of representatives from the abovementioned principal operating segments and different functions, has been established to collect ESG data and facilitate the ESG reporting process. These functions include Company Secretary, Finance, Human Resources, Administrative, Purchasing, Customer Services and Strategic Planning departments, thereby allowing the Group to disclose necessary information in order to present a balanced picture of our ESG performance.

The Group continuously monitors the ESG-related risks by ensuring that appropriate internal controls are in place to regularly assess and manage the risks, and oversees the management in the design, implementation and monitoring of the risk management and internal control systems, as well as ESG matters. The Group has appointed an external consultant to perform independent review regularly in order to ensure the adequacy and effectiveness of its risk management and internal control systems. For details, please refer to the section "RISK MANAGEMENT AND INTERNAL CONTROL" in the Corporate Governance Report of the Group.

The Group recognises the importance of stakeholder participation to the long-term success of its business and have established various communication channels to understand both external and internal stakeholders' points of views and concerns, including those related to ESG issues of the Group. The Group's key stakeholder groups are employees, clients, investors/shareholders, suppliers, business partners, government, social groups and public. Our normal engagement channels with these key stakeholders include emails and phone communications, meetings, trainings, workshops, employee activities, corporate websites, Annual General Meeting, Annual and Interim Reports, site visits, voluntary activities, as well as sponsorship and donations.

Through our established engagement channels, we have reviewed the feedback from our stakeholders, identified relevant ESG issues and assessed their materiality to our business as well as to the stakeholders. The table below highlights the ESG issues which are determined to be material to the Group covered in this report:

HKEx ESG Guide Reference	Material ESG issues
A. Environmental	
A1. Emissions	• Air emissions and water discharge • Greenhouse gas emissions • Waste management
A2. Use of resources	• Energy consumption • Water usage • Packaging materials
A3. The environment and natural resources	• Environmental impact management
B. Social	
B1. Employment	• Labour practices
B2. Health and safety	• Workplace health and safety
B3. Development and training	• Employee development and training
B4. Labour standards	• Prevention of child and forced labour
B5. Supply chain management	• Responsible procurement
B6. Product responsibility	• Product and service quality
B7. Anti-corruption	• Anti-corruption and money laundering
B8. Community investment	• Community programmes, donation and award

Note: The principal subsidiaries of the Group covered in this report are Tianjin TEDA Tsinlien Electric Power Co., Ltd. ("Electricity Company"), Tianjin TEDA Tsinlien Water Supply Co., Ltd. ("Water Company"), Tianjin TEDA Tsinlien Heat & Power Co., Ltd. ("Heat & Power Company"), Tianjin Tianduan Press Co., Ltd. ("Tianduan Press"), Tianjin Tianfa Heavy Machinery & Hydro Power Equipment Manufacture Co., Ltd. ("Tianfa Equipment") and Tianjin Lisheng Pharmaceutical Co. Ltd ("Lisheng"). Since the Group has disposed part of the equity interest in Tianjin Institute of Pharmaceutical Research Co., Ltd ("Research Institute"), Research Institute ceased to be a subsidiary of the Group and hence is excluded from the reporting scope of our ESG report.

A. ENVIRONMENTAL

A1 Emissions

In order to protect the environment, the Group takes an active role to manage our air and greenhouse gas emissions, discharges into water and land, and hazardous and non-hazardous waste from our business operations. We are committed to meet the requirements as set out in the local environmental laws and regulations, including but not limited to the "Environmental Protection Law of the People's Republic of China"(中華人民共和國環境保護法), the "Law of the People's Republic of China on Prevention and Control of Water Pollution" (中華人民共和國水污染防治法), the "Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution" (中華人民共和國大氣污染防治法) and the "Law of the People's Republic of China on the Prevention and Control of Solid Waste" (中華人民共和國固體廢物污染環境防治法). We have taken into consideration the environmental sustainability into our business processes. Internal policies and procedures have been established to provide guidelines on the monitoring of our air emissions and water discharge, as well as on our waste handling processes. We have also dedicated teams to monitor our environmental performance regularly, and corresponding controls have been implemented on high consumption areas.

There were no material non-compliance cases noted in relation to environmental laws and regulations during the Reporting Period.

Air emissions and water discharge

Statistics of our air emissions and water discharge during the Reporting Period together with the comparative figures for the corresponding year in 2017 ("FY 2017") are summarised as follows:

Type of emissions	**2018 Total (Tonnes)**	2017 Total (Tonnes)
Chemical Oxygen Demand (COD)	**19.69**	30.11
Ammoniacal Nitrogen (NH_3-N)	**1.65**	3.74
Sulphur Dioxide (SO_2)	**1.12**	1.31
Nitrogen Dioxide (NO_2)	**10.07**	6.26
Non-methane Hydrocarbon (NMHC)	**0.30**	0.30
Dust	**1.30**	1.67
Petroleum	**0.05**	0.05
Xylene	**0.08**	0.08
Toluene	**0.03**	0.02
Suspended Solids (SS)	**2.70**	2.29
Biochemical Oxygen Demand (BOD)	**3.78**	3.09
Volatile Organic Compounds (VOCs)	**0.04**	0.01
Ammonia (NH_3)	**0.07**	N/A
Hydrochloric Acid (HCl)	**0.14**	N/A
Liquid waste	**176.50**	N/A
Wastewater	**637,773.00**	593,547.80

Note: The above statistics cover the air emissions and water discharge from Water Company, Tianduan Press and Tianfa Equipment and Lisheng in FY 2018 and FY 2017.

A. ENVIRONMENTAL (Continued)

A1 Emissions (Continued)

Air emissions and water discharge (Continued)

To ensure the Group meets relevant standards, in addition to regular assessments and controls of air emissions and water discharge, we have also adopted various initiatives to reduce our emission levels, including:

- Enclosed shot-blasting equipment (噴丸密閉設備) and fiberglass filter cotton (玻璃纖維過濾棉) with activated carbon have been installed to filter emissions generated from our operations.

- Welding fumes generated from factories have been collected by gas-collecting hood (集氣罩) to reduce the amount of dust emissions in the air.

- Fume purification facilities have been installed in the canteen.

- Water treatment facilities have been put in place and licensed contractors have been engaged to collect and handle the sewage from operations.

- COD online monitoring system has been established to ensure that the COD level met the regulatory standards before discharging. The system was interconnected with the government environmental monitoring platform to facilitate real-time data transmission and monitoring.

- Environmentally friendly coal-fired boilers have been deployed to replace the old ones for reducing the level of both air emission and industrial wastewater discharged.

Greenhouse gas emissions

The major source of our carbon emissions is from the energy consumption. There were 661,001 Tonnes (2017: 676,524 Tonnes) of the energy-related carbon dioxide equivalent (CO2e) generated from our operations during the Reporting Period and we have implemented various energy-saving initiatives to help reduce our carbon footprint. Please refer to the "Energy Consumption" section below for our energy consumption data and reduction initiatives.

Note: The carbon emissions are calculated with reference to the "Greenhouse Gas Protocol" published by the World Business Council for Sustainable Development and the World Resources Institute, the "Environmental Key Performance Indicators Reporting Guide" of HKEx, the "Baseline Emission Factors for Regional Power Grids of China" published by the Ministry of Ecology and Environment and "The UK Government Conversion Factors for greenhouse gas reporting" published by the Department for Environment, Food & Rural Affairs.

A. ENVIRONMENTAL (Continued)

A1 Emissions (Continued)

Waste management

The major types of industrial waste for the Group are the commercial waste produced from the manufacturing processes of our electrical and mechanical segment and solid waste (including construction waste, commercial waste and industrial waste) generated from our pharmaceutical segment. During the Reporting Period, the total amount of non-hazardous waste produced by the above-mentioned segments was 1,490.8 tonnes (2017: 1,560 tonnes).

Both the electrical and mechanical and pharmaceutical segments also generate hazardous waste during their operation, which includes used oil, scrap mica, oily waste and organic waste. During the Reporting Period, the total amount of hazardous waste produced by the above-mentioned segments was 13.88 tonnes (2017: 261.59 tonnes). The decrease in the hazardous waste in terms of both type and amount was mainly due to the exclusion of Research Institute from our reporting scope.

In terms of general commercial and industrial waste management, wastes have been disposed in accordance with the "Standard for Pollution Control on the Storage and Disposal Site for General Industrial Solid Wastes" (一般工業固體廢物貯存、處置場污染控制標準). The standard provides guidelines on the storage of general industrial solid waste, as well as the design, operation, management, pollution control and monitoring requirements of the site selected for waste disposal. In addition, solid waste collection points have been established to centralise the storage of solid waste so as to avoid pollution. Recyclable solid wastes have been collected and recycled by designated departments. All hazardous wastes have been collected and handled by licensed service providers during the Reporting Period. The storage of hazardous waste has fulfilled the "Standard for Pollution Control on Hazardous Waste Storage" (危險廢物貯存污染控制標準), which stipulates the requirements in handling, storage and disposal of hazardous waste, and trainings have been provided to our employees on hazardous waste management. The group has no significant hazardous chemicals used in our operations.

A2 Use of Resources

The Group conserves resources for environmental and operating efficiency purposes. We closely monitor the utilisation of various resources and regularly report the related performance, as well as timely consider the appropriate remedial actions where necessary. The Group complies with the requirements set out in the "Law of the People's Republic of China on Energy Conservation" (中華人民共和國節約能源法) and encourages reuse and recycling practices in our operations.

A. ENVIRONMENTAL (Continued)

A2 Use of Resources (Continued)

Energy consumption

Statistics of our consumption of the direct and indirect energy during the Reporting Period together with the comparative figures for FY 2017 are shown as below:

	Consumption		Intensity (per employee)	
Type	**2018**	2017	**2018**	2017
Petrol (Tonnes)	**33.11**	70.13	**0.02**	0.04
Diesel (Tonnes)	**55.87**	261.63	**0.04**	0.09
Natural gas (m^3)	**4,462,891**	5,122,431	**1,354.03**	1,176.49
Electricity (kWh)	**104,635,280**	94,446,928	**27,149.79**	19,130.44
Heat (GJ)	**4,056**	11,907	**17.04**	59.54
Steam (Tonnes)	**3,988,532**	3,908,219	**2,071.96**	1,341.30

Note: The above statistics cover the major types of energy consumed by Electricity Company, Water Company, Heat & Power Company, Tianduan Press, Tianfa Equipment and Lisheng in FY 2018 and FY 2017.

The Group has implemented energy reduction initiatives during the Reporting Period:

- Establishing energy management systems to monitor and control the use of energy.
- Deploying high-efficiency machines and equipment.
- Replacing halogen light bulbs with LED lighting in the warehouse.
- Implementing solar water heating systems and automated temperature control systems.
- Switching off non-essential lighting and reducing the use of air-conditioning.
- Controlling the use of corporate vehicles and performing regular maintenance to reduce the fuel consumption (i.e. 50% or more reduction in both petrol and diesel consumption intensities).
- Replacing coal-fired boiler with steam boiler.
- Engaging our staff through trainings and various activities to raise the awareness of energy saving.

Water usage

During the Reporting Period, the aggregate amount of water consumed by Electricity Company, Water Company, Heat & Power Company, Tianduan Press, Tianfa Equipment and Lisheng was 2,855,239 tonnes, with an intensity of 740.85 tonnes per employee (2017 Consumption: 4,174,875 tonnes; 2017 Intensity: 845.63 tonnes per employee). The Group has no water sourcing issues during the Reporting Period.

A. ENVIRONMENTAL (Continued)

A2 Use of Resources (Continued)

Water usage (Continued)

We have implemented water saving measures, which include the following:

- Recycling and reusing the wastewater for lawn irrigation and flushing water.
- Implementing water circulation systems across the manufacturing process to reduce the consumption of steam, which is expected to save up to 2,500 tonnes of steam annually.
- Installing water efficient devices.
- Carrying out periodic inspection and replacement on water pipes to prevent leakages.

With the implementation of the abovementioned measures, both absolute water consumption and consumption intensity have been reduced significantly compared to 2017.

Packaging Materials

Our pharmaceutical segment consumes packaging materials for containing and protecting our pharmaceutical products while Tianfa Equipment also consumes a small amount of packaging materials. Despite the fact that using packaging materials is inevitable, we strive to minimise the packaging materials by adopting simple design, as well as using recycled and recyclable materials as possible. During the Reporting Period, our total packaging materials used for protecting our pharmaceutical products and used by Tianfa Equipment was 3,139.51 tonnes (2017: 6,161.37 tonnes).

A3 The Environment and Natural Resources

Environmental impact management

The Group is devoted to minimise our environmental impact through performing regular assessments and continuous monitoring of the environmental risks in our operations.

Apart from the emissions and use of resources described above, we are actively managing other key areas of impacts, including the noise generated from our transformers and construction works during the Reporting Period.

To better control and mitigate our environmental impact, we have developed environmental systems that meet the ISO 14000 Environmental Management System Standard with key features including:

- Developing operating procedures and maintenance schedules in relation to environmental facilities, in order to ensure that the facilities are in good working condition throughout the operations.
- Providing induction orientation and trainings to technicians to enhance their environmental knowledge and ensure the smooth operations of all environmental protection facilities.
- Engaging qualified consultants to conduct environmental assessment on development or renovating projects.
- Informing local environmental authorities regularly of the progress against environmental protection and pollution control and the respective results.
- Integrating environmental protection elements into performance evaluation to ensure that the environmental targets can be effectively implemented as appropriate.

B. SOCIAL

B1 Employment

Labour practices

The Group promotes ethical and fair labour policies. Our operating segments have established comprehensive guidelines with reference to the relevant labour laws and regulations to govern the employee compensation and dismissal, recruitment and promotion, working hours and leaves policy, equal opportunity and other welfares, which have been clearly communicated to relevant employees and are regularly reviewed where necessary to ensure proper execution. The Group will consider hiring disabled persons where appropriate. The Group consistently follows the requirements as set out in the related law and regulations, including the "Labour Law of the People's Republic of China" (中華人民共和國勞動法) and the "Trade Union Law of the People's Republic of China" (中華人民共和國工會法).

There were no material non-compliance issues noted regarding our labour practices during the Reporting Period.

B2 Health and Safety

Workplace health and safety

We strictly follow the "State Administration of Work Safety Act" (國家安全生產法) and have obtained the "The National Standard of Occupational Health and Safety Management Systems" (職業健康安全管理體系認證) to provide a safe and healthy working environment to our employees.

We have established employees' handbooks and safety guidelines for productions to clearly set out working procedures and specify the responsibilities of employees regarding workplace health and safety. Monitoring and management mechanisms are in place for operations with related risks identified. We also provide safe equipment which are in conformity with the required standards and body check-up to our employees. We have also set safety targets and contingency plans, and have performed evaluations of historical safety records.

There were no material non-compliance cases noted in relation to health and safety laws and regulations during the Reporting Period.

B3 Development and Training

Employee development and training

We value the development of our employees and aim at assisting employees to achieve their career goals while meeting our business objectives. Training initiatives have been established to cater our employees' development needs according to their roles and responsibilities as well as our operational requirements. To equip our employees with technical knowledge and skills as well as personal development, we offer both internal and external training opportunities for various levels of employees.

B. SOCIAL (Continued)

B4 Labour Standards

Prevention of child and forced labour

The Group strictly prohibits the use of child and forced labour with reference to the "Underage Workers Special Protection Provisions" (未成年工特殊保護規定) and "Prohibition of Child Labour Provisions" (禁止使用童工規定), by adopting a comprehensive screening and recruiting process, as well as by conducting regular reviews and inspections to detect the employment of any child or forced labour situation in our operations.

There were no material non-compliance issues noted regarding labour standards as required by related laws and regulations during the Reporting Period.

B5 Supply Chain Management

Responsible procurement

In the supplier selection process, the Group takes suppliers' social and environmental protection responsibilities into consideration, in addition to product or service quality and commercial factors. Our suppliers must comply with the national requirements and acquire relevant licenses and qualifications. We also regularly review the status of selected suppliers so as to ensure they meet the requirements.

B6 Product Responsibility

Product and service quality

We embrace the philosophy of "Safety First, Customer Foremost" (安全第一、用戶至上). We strive to provide quality products and services and make continuous improvement to achieve a higher standard. We benchmark our services quality for electricity supplies against the "Tianjin Economic and Technological Development Zone Administrative Measures for the Supply and Use of Electricity" (天津經濟技術開發區供用電管理辦法). The supply of water also meets the national standards including but not limited to the "Sanitary Standard for Drinking Water" (生活飲用水衛生標準), the "Water Quality Standards for Urban Water Supply" (城市供水水質標準), the "Technical Specification for Operation, Maintenance and Safety of City and Town Waterworks" (城鎮供水廠運行、維護及安全技術規程) to ensure the provision of a reliable and clean water supply.

For supply of Heat & Power, we govern our services in accordance with policies such as the "Tianjin Heat Supply Standard, Regulations and Specification" (天津市供熱規範、規章、文件及技術標準彙編), the "Regulations on Supply and Use of Heat in Tianjin" (天津市供熱用熱條例), and the "Tianjin Administrative Measures on Pricing for Heat Supply" (天津市供熱採暖收費管理辦法).

Our electrical and mechanical segment has developed a comprehensive quality control system in accordance with the ISO 9000 Quality Management Standard which set out the required procedures addressing including but not limited to product design and development, procurement, production, quality controls.

For our pharmaceutical segment, we are in strict compliance with the "Good Manufacturing Practice" ("GMP") (藥品生產和質量管理規範), "Pharmaceutical Administration Law" (藥品管理法), "Provisions on the Administration of Pharmaceutical Directions and Labels"(藥品說明書和標籤管理規定), "Advertising Law of the People's Republic of China"(中華人民共和國廣告法), "Measures for the Administration on Report and Monitoring of the Side Effect of Pharmaceuticals" (藥品不良反應報告和監測管理辦法), "Administrative Measures for Drug Recalls" (藥品召回辦法) and other relevant laws and regulations. To promote better quality control, Lisheng has established quality management systems comprised of regular self-inspection and quality audit by independent quality control team, for its production as well as sales and marketing functions.

During the Reporting Period, there were no material non-compliance issues noted regarding product responsibilities.

B. SOCIAL (Continued)

B7 Anti-corruption

Anti-corruption and money laundering

The Group is committed to comply with laws regarding anti-corruption and anti-money laundering including but not limited to the "Criminal Law of The People's Republic of China" (中華人民共和國刑法) and the "Law of the People's Republic of China on Anti-money Laundering" (中華人民共和國反洗錢法). We strive to maintain high standard of ethical, personal and professional conduct among all our employees. We do not tolerate corruption, bribery, extortion, money-laundering and other fraudulent activities in connection with any of our business operations. As a result, we have a number of internal policies addressing anti-corruption and anti-money laundering as well as employee code of conducts in place. These policies provide guidelines on expenditure management, whistleblowing channels, as well as bribery acts. On the other hand, the Group strives to promote business ethics and raise awareness through regular trainings and communications to our management and employees. Moreover, whistleblowing channels are provided to stakeholders to report issues identified to us.

During the Reporting Period, there were no material non-compliance issues noted regarding corruption and money laundering.

B8 Community Investment

Community programmes, donation and award

Besides providing quality products and services to meet the needs of our users and development of the society, we also care for the community through various volunteer activities and monetary donation to the underserved. The Group encourages our employees to participate in various internal and external community programmes.

The Group has always cared for the poor and the community as a whole. During the Reporting Period, our community investment focused on assisting the underprivileged, through organising and participating in a great variety of social activities with various charity institutions. For instance, we have visited the child welfare home and nursing home to show our care and concern to underprivileged children.

In terms of financial support, Lisheng has made donations to the underprivileged with an aggregate amount over RMB1 million, and has provided sponsorships to promote health and higher living standards.

During the Reporting Period, Lisheng was awarded the 2017 Golden Bull Investment Award (2017年度金牛最具投資價值獎), which demonstrated that its efforts in the fields of corporate governance and investor relations have been highly recognised.

Corporate Governance Report

CORPORATE GOVERNANCE PRACTICES

The Company is committed to maintaining a high standard of corporate governance in the interests of shareholders and devotes considerable efforts to formalizing the best practices. This Corporate Governance Report describes the way the Company has applied the principles of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"). Throughout the year, the Company has complied with the code provisions as set out in the CG Code except for the deviations as set out in the paragraph headed "*Board Composition*" in this section below.

The Board will continue to monitor and review the Company's corporate governance practices and procedures and make necessary changes when it considers appropriate.

BOARD OF DIRECTORS

The overall management of the Company is vested in the Board. The executive directors are responsible for the day-to-day management of the Company's businesses and to conduct regular meetings with the senior management of the Company. The Board focuses its attention on matters affecting the Company's strategic policies which include future growth and development, financial statements, dividend policy, annual budget, significant changes in accounting policy, major financing arrangements and investments, risk management strategies and treasury policies. The abovementioned matters are monitored and approved by the Board and decisions relating to such matters are subject to the decision of the Board. Matters not specifically reserved to the Board and necessary for the daily operations of the Company are delegated to the management under the supervision of the Board.

The Company has a formal schedule of matters specifically reserved to the Board for its decision, which include the matters referred to in the above paragraph. When the Board delegates aspects of its management and administration functions to management, it gives clear directions as to the scope of powers of management, in particular, with respect to the circumstances where management should report back and obtain prior approval from the Board before making decisions or entering into any commitments on behalf of the Company.

The Company has formalized the functions reserved to the Board and those delegated to management. It reviews those arrangements on a periodic basis to ensure that they remain appropriate to the needs of the Company.

Board Composition

As at 31 December 2018, the Board consists of ten members, comprising three executive directors, being Mr. Wang Zhiyong *(General Manager)*, Dr. Cui Di and Dr. Yang Chuan, two non-executive directors, being Mr. Cheung Wing Yui, Edward and Dr. Chan Ching Har, Eliza and five independent non-executive directors, being Dr. Cheng Hon Kwan, Mr. Mak Kwai Wing, Alexander, Ms. Ng Yi Kum, Estella, Mr. Wong Shiu Hoi, Peter and Dr. Loke Yu.

On 31 July 2018, Mr. Zeng Xiaoping retired as Chairman and executive director of the Company and ceased to be the Chairman of the Nomination Committee, member of the Remuneration Committee and authorised representative of the Company. Subsequent to his retirement, the roles of the Chairman of the Board and the Chairman of the Nomination Committee are outstanding, which constitute deviations from code provisions A.2 and A.5.1 of the CG Code.

Coming from different professional backgrounds, all directors have distinguished themselves in their fields of expertise, and have exhibited high standards of personal and professional ethics and integrity. The non-executive directors have brought their valuable experience to the Board for promoting the best interests of the Company and its shareholders. The independent non-executive directors contribute to ensuring that the interests of all shareholders of the Company are taken into account by the Board. The biographical details of each director are disclosed on pages 16 to 20 of this Annual Report.

Board Composition (Continued)

The Company has received from each independent non-executive director an annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules and the Company continues to consider each of them independent.

Non-executive directors are appointed for a specific term of three years and subject to retirement by rotation and re-election at the general meeting in accordance with the Articles of Association. A letter of appointment has been entered into between the Company and each of the non-executive directors and independent non-executive directors.

According to the Articles of Association, at each annual general meeting one-third of the Directors for the time being (or, if their number is not a multiple of three, then the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years. In addition, any Director appointed by the Board during the year shall hold office only until the next following general meeting of the Company (in the case of filling a casual vacancy) or until the next following annual general meeting of the Company (in the case of an addition to the existing Board) immediately following his or her appointment, and shall then be eligible for re-election at such relevant meetings.

To the best knowledge of the Company and save for the directorships as disclosed in the section headed "*Biographical Details of Directors and Senior Management*" of this Annual Report, there is no other relationship (including financial, business, family or other material/relevant relationship(s)) between members of the Board and in particular, between the Chairman and the General Manager.

The Company has arranged appropriate insurance cover in respect of directors' and officers' liabilities for members of the Board.

Chairman and General Manager

The code provision A.2.1 of the CG Code provides that the roles of chairman and chief executive should be separate and should not be performed by the same individual.

The Chairman of the Company is responsible for deciding the agenda of Board meetings, taking into account where appropriate matters proposed by other directors for inclusion in the agenda, and has an overall responsibility for providing leadership, vision and direction in the development of the business of the Company. Apart from ensuring that adequate information about the Company's business is provided to the Board on a timely basis, he also ensures that the non-executive directors make contribution at the Board meetings.

The General Manager of the Company, assisted by other executive directors, is responsible to the Board for the day-to-day management of the Company, and attends to formulation and successful implementation of policies. Working with the executive management team of each core business division, he ensures smooth operations and development of the Company and keeps all other directors fully informed of all major business developments and issues. He is also responsible for building and maintaining an effective team to support him in managing the business of the Company.

Such division of responsibilities allows a balance of power between the Board and the management of the Company and ensures their independence and accountability. Their responsibilities are clearly segregated and have been set out in writing.

Board Responsibilities

The Company views well-developed and timely reporting systems and internal controls as essential, and the Board plays a key role in the implementation and monitoring of internal financial controls.

The Board is responsible for performing the corporate governance duties and has adopted a set of corporate governance guidelines with reference to the CG Code.

In the course of discharging their duties, the directors act in good faith with due diligence and care and in the best interests of the Company and its shareholders. Their responsibilities include:

- regular board meetings focusing on business strategy, operational issues and financial performance;
- active participation on the boards of subsidiaries and associates;
- monitoring the quality, punctuality, relevance and reliability of internal and external reporting;
- monitoring and managing potential conflicts of interest of management, board members and shareholders, including misuse of corporate assets and abuse in connected transaction; and
- ensuring the overall integrity of the Company, including financial statements, relationships with suppliers, customers and other stakeholders, and compliance with all relevant laws and professional ethics.

Board Proceedings

All members of the Board meet in person regularly and have full and timely access to relevant information. Moreover, the Board has established procedure to enable directors, upon reasonable request, to seek independent professional advice in appropriate circumstances at the Company's expense, if necessary. All directors are required to declare their interests, if any, in any transaction, or proposal to be considered at Board meetings and to abstain from voting on any related resolutions.

The Articles of Association contain description of responsibilities and operation procedures of the Board. Board meetings include regular meetings and other meetings.

Due notice and board papers were given to all directors prior to the Board meetings in accordance with the Articles of Association and the CG Code. The minutes of the Board meetings are prepared by the Company Secretary with details of the matters considered by the Board and decisions reached, including any concerns raised by the members of the Board or views expressed.

In 2018, the Company held four Board meetings. The attendance records of each member of the Board are set out below:

Name of Director		Attended/Eligible to Attend
Executive Directors		
Mr. Wang Zhiyong *(General Manager)*		3/4
Dr. Cui Di		3/4
Dr. Yang Chuan		4/4
Mr. Zeng Xiaoping	(retired on 31 July 2018)	2/2
Non-Executive Directors		
Mr. Cheung Wing Yui, Edward		4/4
Dr. Chan Ching Har, Eliza		4/4
Independent Non-Executive Directors		
Dr. Cheng Hon Kwan		3/4
Mr. Mak Kwai Wing, Alexander		4/4
Ms. Ng Yi Kum, Estella		4/4
Mr. Wong Shiu Hoi, Peter		4/4
Dr. Loke Yu		4/4

In addition to Board meetings, a meeting of the Chairman and the independent non-executive directors (including non-executive directors) without the presence of other executive directors and the management was held in 2018.

Continuous Professional Development

Directors are encouraged to participate in continuous professional development to refresh their knowledge and skills. In December 2018, the Company has invited Prof. Liu Binglian, Dean of the College of Economics and Social Development of Nankai University, to conduct an in-house training session for directors on the topic of "Opportunities and Responses of Coordinated Development of the Beijing, Tianjin and Hebei Region". Further, monthly updates on the Company's performance, position and prospects are also provided. The types of continuous professional development activities undertaken by the directors during the year are summarised as below:

Name of Director		Types of Continuous Professional Development Activities
Executive Directors		
Mr. Wang Zhiyong *(General Manager)*		A
Dr. Cui Di		A
Dr. Yang Chuan		A
Mr. Zeng Xiaoping	(retired on 31 July 2018)	N/A
Non-Executive Directors		
Mr. Cheung Wing Yui, Edward		A, B & C
Dr. Chan Ching Har, Eliza		A & B
Independent Non-Executive Directors		
Dr. Cheng Hon Kwan		B & C
Mr. Mak Kwai Wing, Alexander		A & B
Ms. Ng Yi Kum, Estella		B
Mr. Wong Shiu Hoi, Peter		A & B
Dr. Loke Yu		A & B

notes:

A: attending in-house training session
B: attending relevant conferences/seminars/workshops
C: reading relevant materials/e-training

BOARD COMMITTEES

As a part of good corporate governance, the Board has established the Remuneration Committee, Audit Committee, Investment Committee and Nomination Committee to oversee the particular aspect of the Company's affairs. These committees have been formed with specific written terms of reference which deal clearly with the committees' authority and duties. Copies of these terms of reference are available at the websites of the Company and the Stock Exchange.

Remuneration Committee

The Remuneration Committee was established in 2005 and currently consists of two independent non-executive directors, Dr. Cheng Hon Kwan and Mr. Mak Kwai Wing, Alexander and one executive director, Mr. Wang Zhiyong. It is chaired by Dr. Cheng Hon Kwan. A written terms of reference of the Remuneration Committee, which describes the authority and duties of the Remuneration Committee, are reviewed and updated by the Board from time to time to comply with the provision of the CG Code.

The principal responsibilities of the Remuneration Committee are to review and consider the Company's policy for the remuneration of directors and senior management and make recommendations to the Board on the remuneration packages of individual directors and senior management. The Remuneration Committee considers several factors such as time commitment, experience and responsibilities of the individual and the prevailing market condition before determining the remuneration packages including benefits in kind, pension rights and compensation payments. It also recommends to the Board on the remuneration of non-executive directors.

During the year, the Remuneration Committee held two meetings and also dealt with matters by way of written resolutions. The attendance of committee members is recorded below:

Name of Director		Attended/Eligible to Attend
Dr. Cheng Hon Kwan *(Chairman)*		2/2
Mr. Mak Kwai Wing, Alexander		2/2
Mr. Wang Zhiyong	(appointed on 31 July 2018)	1/1
Mr. Zeng Xiaoping	(retired on 31 July 2018)	1/1

In 2018, the Remuneration Committee reviewed and made recommendation to the Board on remuneration matters including the existing remuneration policy, bonus for the year 2017 and the remuneration packages for the year 2018 of the Company's directors and senior management. In January 2019, the Remuneration Committee reviewed and made recommendation to the Board on the bonus for the year 2018 of the Company's directors and senior management.

Details of the emoluments of the directors and the interests of the directors in the share options of the Company during the year ended 31 December 2018 are set out in Notes 11 and 34 to the consolidated financial statements.

Audit Committee

The Audit Committee currently consists of five independent non-executive directors, namely Ms. Ng Yi Kum, Estella, Dr. Cheng Hon Kwan, Mr. Mak Kwai Wing, Alexander, Mr. Wong Shiu Hoi, Peter and Dr. Loke Yu. It is chaired by Ms. Ng Yi Kum, Estella. The Audit Committee reports directly to the Board and reviews matters relating to the work of the external auditor, financial statements, risk management and internal control systems. The Audit Committee meets with the Company's external auditor to discuss the audit process and the accounting and internal control issues. A written terms of reference, which describes the authority and duties of the Audit Committee, are reviewed and updated by the Board from time to time to comply with the provision of the CG Code.

Set out below is a summary of work performed by the Audit Committee in 2018:

— reviewed the financial statements for the year ended 31 December 2017 and for the six months ended 30 June 2018;

— reviewed the Group's continuing connected transactions;

— reviewed risk management and internal control matters with external consultant;

— reviewed the external auditor's statutory audit plan and letters to the management; and

— considered 2018 audit fees and audit work.

The Audit Committee held two meetings in 2018. At the meetings, the members of the Audit Committee have executed the major duties and responsibilities described above. They also discussed material uncertainties which may be brought about by the global economic crisis, reviewed the internal audit function of the Company, and reported a summary of their work to the Board for discussion. The attendance of committee members is recorded below:

Name of Director	Attended/Eligible to Attend
Ms. Ng Yi Kum, Estella *(Chairman)*	2/2
Dr. Cheng Hon Kwan	2/2
Mr. Mak Kwai Wing, Alexander	2/2
Mr. Wong Shiu Hoi, Peter	2/2
Dr. Loke Yu	2/2

Investment Committee

The Investment Committee was established in April 2010 and currently comprises of three members, Mr. Mak Kwai Wing, Alexander, independent non-executive director, Dr. Chan Ching Har, Eliza, non-executive director and Mr. Wang Zhiyong, executive director. It is chaired by Mr. Mak Kwai Wing, Alexander.

The Investment Committee reports directly to the Board and reviews matters in relation to evaluation of business plans, formulation of proper procedures for investment projects as well as the adequacy of controls and monitoring ongoing risk factors. A written terms of reference, which describes the authority and duties of the Investment Committee, are reviewed and updated by the Board from time to time to comply with the provision of the CG Code.

Investment Committee (Continued)

During the year, the Investment Committee held two meetings. At the meetings, members of the Investment Committee discussed and review the transactions in relation to the partial disposal of equity interest in Tianjin Institute of Pharmaceutical Research Co., Ltd. (天津藥物研究院有限公司) and the absorption and merger of Tianjin TEDA Tsinlien Electric Power Co., Ltd. (天津泰達津聯電力有限公司). Details of the transactions may refer to the Company's announcements dated 29 May 2018, 6 August 2018 and 6 December 2018 and the circulars dated 10 September 2018 and 30 January 2019. The attendance of committee members is recorded below:

Name of Director	Attended/Eligible to Attend
Mr. Mak Kwai Wing, Alexander *(Chairman)*	2/2
Dr. Chan Ching Har, Eliza	2/2
Mr. Wang Zhiyong	2/2

Nomination Committee and Appointment of Directors

The Nomination Committee was established in December 2011 and currently consists of three independent non-executive directors, Dr. Cheng Hon Kwan, Mr. Mak Kwai Wing, Alexander and Ms. Ng Yi Kum, Estella and one executive director, Mr. Wang Zhiyong.

The principal responsibilities of the Nomination Committee are to review the structure, size and composition of the Board, identify individuals suitably qualified to become Board members, assess the independence of independent non-executive directors, make recommendations to the Board on relevant matters relating to the appointment or re-appointment of directors and succession planning for directors and review the board diversity policy as appropriate. A written terms of reference, which describes the authority and duties of the Nomination Committee, are reviewed and updated by the Board from time to time to comply with the provision of the CG Code.

The Board has adopted a board diversity policy. When determining the composition of the Board, the Nomination Committee seeks to achieve board diversity through the consideration of a number of factors, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. 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 merits and contribution the selected candidates will bring to the Board.

During the year, the Nomination Committee held one meeting. At the meeting, the eligibility of the directors seeking for re-election at the annual general meeting and the independence of the independent non-executive directors had been reviewed and assessed. The existing size and composition of the Board has also been reviewed. The attendance of committee members is recorded below:

Name of Director		Attended/Eligible to Attend
Dr. Cheng Hon Kwan		1/1
Mr. Mak Kwai Wing, Alexander		1/1
Ms. Ng Yi Kum, Estella		1/1
Mr. Wang Zhiyong		1/1
Mr. Zeng Xiaoping	(retired on 31 July 2018)	1/1

Nomination Committee and Appointment of Directors (Continued)

According to the Articles of Association, the Board has the power at any time to appoint any person as a director either to fill a casual vacancy or as an addition to the Board. Prospective candidates are first considered by the Nomination Committee, candidates found to be suitable are then recommended to the Board for decision. In assessing the suitability of the proposed candidate, the Nomination Committee will take into consideration the candidate's qualification, ability and potential contributions to the Company. The following provisions set out in the terms of reference of the Nomination Committee are regarded as the key nomination criteria and principles of the Company for the nomination of directors:

- review the structure, size and composition (including but not limited to the skills, knowledge, experience and diversity) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

- identify individuals suitably qualified to become Board members and select or make recommendations to the Board on the selection of individuals nominated for directorships, with due regard for the benefits of diversity on the Board;

- make recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors, in particular the Chairman and the chief executive.

No new director was appointed during the year. Directors who are appointed by the Board shall hold office only until the next following general meeting (in the case of filling a casual vacancy) or until the next annual general meeting of the Company (in the case of an addition to the existing Board), and shall then be eligible for re-election. At each annual general meeting, one-third of the directors for the time being shall retire from office by rotation provided that every director shall be subject to retirement by rotation at least once every three years.

Each of the directors on appointment to the Board is provided with a package of orientation materials setting out the duties and responsibilities of directors under the Listing Rules and other applicable statutory and regulatory requirements. The orientation meeting with newly appointed director(s) will be held for briefing on business and operations of the Company.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 of the Listing Rules as its own code of conduct for directors' securities transactions. Having made specific enquiry, all the directors confirmed that they have complied with the required standard as set out in the Model Code throughout the year 2018.

The Company has also established written guidelines regarding securities transactions on no less exacting terms of the Model Code for senior management and specific individuals who may have access to price-sensitive information in relation to the securities of the Company.

EXTERNAL AUDITOR

Deloitte Touche Tohmatsu ("Deloitte") has been appointed as independent auditors of the Group. The Audit Committee has reviewed Deloitte's proposal in respect of their scope of work and fees for the audit of 2018. Deloitte has carried out statutory audit in relation to the Company's financial statements prepared under the Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards and the Hong Kong Companies Ordinance for the year 2018 and also reviewed the 2018 unaudited interim financial statements of the Company in accordance with the HKFRSs.

During the year, the fees paid to Deloitte in respect of audit services amounted to approximately HK$5,520,000 and non-audit services in relation to consultancy and review services amounted to approximately HK$2,220,000.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for maintaining an adequate system of risk management and internal control of the Group and constantly reviewing its effectiveness while the Audit Committee is assisting the Board in fulfilling its supervision responsibility through annual review and evaluation. The system of risk management and internal control is designed to facilitate effective and efficient operations, to safeguard assets and to ensure the quality of internal and external reporting and compliance with applicable laws and regulations. It is also designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Group has established a clear risk management framework with defined levels of responsibility and reporting lines to identify, evaluate and manage significant risks. Operating units of the Group identify potential risks during their day-to-day operations and initiate actions to mitigate. In addition, management of the operating units perform risk assessment exercise periodically by conducting questionnaire and interviews, significant findings and associated action plans are recorded to the Group's risk register for monitoring and to ensure appropriate controls and mitigation actions are in place.

The Company appoints external consultant to perform internal audit function. External consultant conducts independent review twice a year on the adequacy and effectiveness of the Group's risk management and internal control systems and submits internal audit report to the Audit Committee half-yearly with findings and recommendations. The Audit Committee, will by taking into consideration the control issues identified by the external auditor in the course of statutory audit, formulate their opinion and report to the Board at the regular meetings.

The Group conducts its affairs with regard to the "Guidelines on Disclosure of Inside Information" issued by the Securities and Futures Commission in June 2012. The Group has also established business ethics guidelines for all employees which includes prohibition on using or disseminating of inside information.

During the year, the Board has engaged RSM Nelson Wheeler Consulting Limited ("RSM Nelson Wheeler") to perform two internal audit reviews to assess on the effectiveness of the Group's risk management and internal control systems. The assessments cover all material controls, including financial, operational and compliance controls of the Company and its major subsidiaries on a rotation basis.

The internal audit reports prepared by RSM Nelson Wheeler in accordance with the risk-based internal audit plan for the year of 2018 have been reviewed and discussed at the Audit Committee meetings held on 24 August 2018 and 21 March 2019, respectively. The Board together with the senior management have respectively on 30 August 2018 and 28 March 2019, reviewed, considered and discussed all the findings in relation to the internal control system and recommendations thereto, and have concluded that the overall internal control system of the Group has effectively exercised and no material control failure or significant areas of concern which might affect shareholders' interest were identified during the reviews.

GOING CONCERN

The directors, having made appropriate enquiries, consider that the Company has adequate resources to continue in operational existence for the foreseeable future and that, for this reason, it is appropriate to adopt the going concern basis in preparing the financial statements.

COMMUNICATION WITH SHAREHOLDERS

The objective of shareholder communication is to provide our shareholders with detailed information about the Company so that they can exercise their rights as shareholders in an informed manner.

The Company uses a range of communication tools to ensure that shareholders are being kept well informed of business development. These include general meetings, annual reports, various notices, announcements and circulars. The Company has established a shareholders' communication policy and will review it on a regular basis to ensure its effectiveness. Shareholders may make enquiries to the Board in writing for the attention of the Company Secretary at Suites 7–13, 36th Floor, China Merchants Tower, Shun Tak Centre, 168–200 Connaught Road Central, Hong Kong or via email at ir@tianjindev.com.

The general meetings provide a useful forum for the shareholders of the Company to express their views and comments and the shareholders are encouraged to attend the general meetings of the Company to exchange views with the Board. The Chairman, directors, board committees' members and external auditor, where appropriate, are available to answer questions at the meetings. The annual general meeting of the Company was held on 7 June 2018, and detailed procedures for conducting a poll have been explained by the Chairman during the meetings. The attendance of each Board member is recorded below:

Name of Director		Attended/Eligible to Attend
Executive Directors		
Mr. Wang Zhiyong *(General Manager)*		0/1
Dr. Cui Di		1/1
Dr. Yang Chuan		0/1
Mr. Zeng Xiaoping	(retired on 31 July 2018)	1/1
Non-Executive Directors		
Mr. Cheung Wing Yui, Edward		1/1
Dr. Chan Ching Har, Eliza		1/1
Independent Non-Executive Directors		
Dr. Cheng Hon Kwan		1/1
Mr. Mak Kwai Wing, Alexander		1/1
Ms. Ng Yi Kum, Estella		1/1
Mr. Wong Shiu Hoi, Peter		1/1
Dr. Loke Yu		1/1

Procedures for Convening of Extraordinary General Meeting on Requisition

Pursuant to section 566 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), shareholders holding at the date of the deposit of the requisition at least 5% of the total voting rights of all shareholders having a right to vote at general meetings, may request the Company to convene an extraordinary general meeting ("EGM"). The request: (i) must state the general nature of the business to be dealt with at the EGM; (ii) may include the text of a resolution that may properly be moved and is intended to be moved at the EGM; (iii) may consist of several documents in like form; (iv) may be sent to the Company in hard copy form at the registered office of the Company, or in electronic form via email at ir@tianjindev.com; and (v) must be authenticated by the person or persons making it.

If the directors of the Company do not within 21 days after the date on which they become subject to the requirement proceed duly to convene an EGM for a day not more than 28 days after the date of the notice convening the EGM is given, the shareholders concerned, or any of them representing more than one-half of the total voting rights of all of them, may themselves convene an EGM, but any EGM so convened shall be held not more than 3 months after the date on which the directors of the Company become subject to the requirement.

Procedures for Putting Forward Proposals at General Meetings

Pursuant to sections 580 and 615 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), shareholders may request the Company to circulate a resolution that may properly be moved and is intended to be moved at an annual general meeting, accompanied by a statement of not more than 1,000 words with respect to the matter mentioned in the proposed resolution. The request must be made by: (a) shareholders representing at least 2.5% of the total voting rights of all shareholders who have a right to vote on the resolution at the annual general meeting to which the request relates; or (b) at least 50 shareholders who have a right to vote on the resolution at the annual general meeting to which the request relates.

The request: (i) may be sent to the Company in hard copy form at the registered office of the Company, or in electronic form via email at ir@tianjindev.com; (ii) must identify the resolution of which notice is to be given; (iii) must be authenticated by the person or persons making it; and (iv) must be received by the Company no later than 6 weeks before the annual general meeting to which the request relates, or if later, the time at which notice is given of that annual general meeting.

CONSTITUTIONAL DOCUMENT

During the year, there was no change in the constitutional document of the Company. Such document is available on the websites of the Company and the Stock Exchange.

DIRECTORS' RESPONSIBILITY IN PREPARING THE FINANCIAL STATEMENTS

The directors acknowledge that it is their responsibility in preparing the financial statements. The responsibilities of the external auditor with respect to financial reporting are set out in the Independent Auditor's Report on pages 55 to 59 of this Annual Report.

Report of the Directors

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

PRINCIPAL ACTIVITIES

The Company is an investment holding company. The principal activities of its subsidiaries, associates and joint ventures are set out in Notes 50, 52 and 53 to the consolidated financial statements respectively.

BUSINESS REVIEW

A review of the business of the Group for the year as required by Schedule 5 to the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) (the "Companies Ordinance"), including description of the principal risks and uncertainties facing the Group, particulars of important events affecting the Group that have occurred since the end of this financial year and indication of likely future development in the Group's business are set out in the sections headed "*General Manager's Statement*", "*Management Discussion and Analysis*", "*Environmental, Social and Governance Report*" and "*Corporate Governance Report*" of this Annual Report, which form part of this report of the directors.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2018 are set out in the consolidated statement of profit or loss on page 60.

An analysis of the Group's performance for the year by business and geographical segments is set out in Note 4 to the consolidated financial statements.

An interim dividend of HK3.26 cents per share (2017: HK4.08 cents per share) was paid on 29 October 2018. The Board recommends the payment of a final dividend of HK4.78 cents per share (2017: HK4.55 cents per share). Details are set out in Note 12 to the consolidated financial statements.

DIVIDEND POLICY

The Company has adopted a dividend policy pursuant to which the declaration and payment of dividends shall be determined by the Board and subject to all applicable requirements under the Companies Ordinance and the articles of association of the Company.

In determining an appropriate basis for dividend payment, the Board will take into account, inter alia, the Group's financial performance, earnings and distributable reserves, future prospects, legal and tax considerations and other factors the Board deems appropriate.

The Board will continually review the dividend policy and reserves the right in its sole and absolute discretion to update, amend and/or modify the dividend policy at any time, and the dividend policy shall in no way constitute a legally binding commitment by the Company that dividends will be paid in any particular amount. The Company has no obligation to declare the distribution of dividends at any or from time to time.

FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 180.

RESERVES

Movements in the reserves of the Group and the Company during the year are set out in the consolidated statement of changes in equity and Note 56 to the consolidated financial statements respectively.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL

Details of the movements in the share capital of the Company during the year are set out in Note 33 to the consolidated financial statements.

EQUITY-LINKED AGREEMENTS

Save for the share option scheme of the Company as set out on pages 48 to 50, no equity-linked agreements were entered into by the Group during the year.

BORROWINGS

Particulars of the borrowings of the Group as at 31 December 2018 are set out in Note 38 to the consolidated financial statements.

DISCLOSURE PURSUANT TO RULE 13.18 OF THE LISTING RULES

Save as disclosed below, during the year and up to the date of this report, the directors of the Company are not aware of any circumstances which would give rise to a disclosure obligation pursuant to the requirements under Rule 13.18 of the Listing Rules.

On 23 November 2016, the Company entered into a facility agreement (the "Facility Agreement") with a syndicate of banks as lenders (the "Lenders") in respect of a HK$1,800 million term loan facility for a period of 36 months commencing from the date of utilisation.

Pursuant to the Facility Agreement, it will be an event of default, inter alia, if: (i) the Tianjin Municipal People's Government ceases to maintain a shareholding ownership directly or indirectly in the Company of more than 50%, or (ii) the Company ceases to be under the direct or indirect management control of Tsinlien Group Company Limited (津聯集團有限公司) ("Tsinlien").

If any of the abovementioned events of default occurs, the Lenders may by notice to the Company: (a) cancel the total commitments or any part thereof; (b) declare that the loan or any part thereof together with accrued interest, and all other amounts accrued or outstanding be immediately due and payable; and/or (c) declare that the loan or any part thereof be payable on demand.

PURCHASE, SALE OR REDEMPTION OF SHARES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's shares during the year ended 31 December 2018.

Report of the Directors

DIRECTORS

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

Executive Directors

Mr. Wang Zhiyong *(General Manager)*
Dr. Cui Di
Dr. Yang Chuan
Mr. Zeng Xiaoping (retired on 31 July 2018)

Non-Executive Directors

Mr. Cheung Wing Yui, Edward
Dr. Chan Ching Har, Eliza

Independent Non-Executive Directors

Dr. Cheng Hon Kwan
Mr. Mak Kwai Wing, Alexander
Ms. Ng Yi Kum, Estella
Mr. Wong Shiu Hoi, Peter
Dr. Loke Yu

In accordance with Article 101 of the Company's Articles of Association, Mr. Wang Zhiyong, Mr. Cheung Wing Yui, Edward, Ms. Ng Yi Kum, Estella and Dr. Loke Yu will retire from office by rotation at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

The biographical details of the directors who will offer themselves for re-election are set out in the section headed "*Biographical Details of Directors and Senior Management*" on pages 16 to 21.

A list of directors who have served on the boards of the subsidiaries of the Company during the year and up to the date of this report is available on the Company's website (www.tianjindev.com).

DIRECTORS' SERVICE CONTRACT

None of the directors has a service contract with the Company or any of its subsidiaries which is not determinable by the Group within one year without payment of compensation (other than statutory compensation).

DIRECTORS' INDEMNITIES

Pursuant to the Company's Articles of Association, subject to the provisions of the Companies Ordinance and so far as may be permitted by the Companies Ordinance, every director of the Company shall be entitled to be indemnified out of the assets 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 insurance cover in respect of directors' and officers' liabilities for the directors of the Company.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

Mr. Wang Zhiyong and Dr. Cui Di are directors of Tianjin Tsinlien Investment Holdings Co., Ltd. (天津津聯投資控股有限公司) ("Tsinlien Investment Holdings") which, through certain of its subsidiaries, is partly engaged in the businesses of pharmaceutical including manufacture and sale of medicinal raw materials, food additive and medical disinfecting products. As these businesses are of different types and/or different sales regions, the Group is capable of carrying on its businesses independently of, and at arm's length from, the businesses of Tsinlien Investment Holdings.

Save as disclosed above, during the year and up to the date of this report, none of the directors was considered to have interests in any business which competes or is likely to compete, either directly or indirectly, with the business of the Group pursuant to Rule 8.10 of the Listing Rules.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

No transactions, arrangements or contracts of significance in relation to the Company's business to which the Company, its subsidiaries, or its holding company was a party and in which a director of the Company or an entity connected with him had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS IN SHARES

As at 31 December 2018, the interests and short positions of the directors and chief executive of the Company in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept under section 352 of the SFO; or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code, were as follows:

Name of director	Number of underlying shares held	Approximate percentage of total issued shares
Mr. Wang Zhiyong	8,600,000	0.80%
Dr. Cui Di	2,900,000	0.27%
Mr. Cheung Wing Yui, Edward	600,000	0.06%
Dr. Chan Ching Har, Eliza	600,000	0.06%
Dr. Cheng Hon Kwan	600,000	0.06%
Mr. Mak Kwai Wing, Alexander	600,000	0.06%
Ms. Ng Yi Kum, Estella	600,000	0.06%
Mr. Wong Shiu Hoi, Peter	100,000	0.01%

notes:

1. All interests are held in the capacity as a beneficial owner.

2. All interests stated above represent long positions.

3. As at 31 December 2018, the total number of shares of the Company in issue was 1,072,770,125.

4. Details of the interests of directors in share options are set out in the paragraph headed "*Share Option Scheme*" in this section below.

DIRECTORS' INTERESTS IN SHARES (Continued)

Save as disclosed above, as at 31 December 2018, none of the directors or chief executive or their respective associates had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under section 352 of the SFO; or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

SHARE OPTION SCHEME

At the annual general meeting of the Company held on 25 May 2007, a share option scheme (the "Share Option Scheme") of the Company was approved by shareholders of the Company. The Share Option Scheme was effective for a period of ten years from the date of adoption and had expired on 24 May 2017, after which no further options could be granted. All the outstanding share options granted under the Share Option Scheme will continue to be valid and exercisable in accordance with the provisions of the Share Option Scheme. The principal terms of the Share Option Scheme are summarised as follows:

(a) Purpose of the Share Option Scheme

The purpose of the Share Option Scheme is to provide the Company with a flexible means of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to the participants.

(b) Participants of the Share Option Scheme

The Board may offer to grant options to the participants which shall refer to (i) any executive or non-executive directors including independent non-executive directors or any employees (whether full-time or part-time) of each member of the Group; (ii) any discretionary objects of a discretionary trust established by any substantial shareholders of the Company or any employees, executive or non-executive directors of each member of the Group; (iii) any consultants, professionals and other advisers to each member of the Group; (iv) any chief executives or substantial shareholders of each member of the Group; (v) any associates of director, chief executive or substantial shareholder of each member of the Group; (vi) any employees (whether full-time or part-time) of substantial shareholder of each member of the Group; (vii) any suppliers of goods or services to any member of the Group; and (viii) any customers of any member of the Group, provided that the Board shall have absolute discretion to determine whether one falls within the aforesaid categories.

(c) Total number of shares available for issue under the Share Option Scheme

The total number of shares of the Company which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Company shall not in aggregate exceed 10% of the total number of shares of the Company in issue as at the date of approval of the Share Option Scheme. The maximum number of shares of the Company which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Company must not exceed 30% of the total number of shares of the Company in issue from time to time.

SHARE OPTION SCHEME (Continued)

(d) Maximum entitlement of each participant

Except with the approval of the Company's shareholders at general meeting, the total number of shares of the Company issued and to be issued upon exercise of the options granted to each participant (including exercised, cancelled and outstanding options) in any 12-month period shall not exceed 1% of the total number of shares in issue as at the date of grant.

(e) Minimum period for options to be held

No minimum period for which an option must be held before it can be exercised unless otherwise determined by the Board.

(f) Period and payment on acceptance of options

An offer of grant of an option may be accepted by a grantee within the date as specified in the offer letter issued by the Company, being a date not later than 30 days after the date on which the offer letter was issued. A consideration of HK$1.00 is payable on acceptance of the offer of grant of an option.

(g) Basis of determining the exercise price

The subscription price of a share in respect of any particular option granted under the Share Option Scheme shall be a price determined by the Board and notified to the participants and shall be at least the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant, which must be a business day; (ii) the average of the closing price of the shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of a share.

At the extraordinary general meeting of the Company held on 19 May 2017, shareholders of the Company passed an ordinary resolution to extend the exercise periods of all the outstanding options granted on 16 December 2009, 3 December 2010, 7 November 2011, 19 December 2012 and 20 December 2013 by the Company under the Share Option Scheme for two years from 24 May 2017 to 24 May 2019.

As at the date of this report, a total of 20,800,000 shares of the Company (representing approximately 1.94% of the existing total number of issued shares of the Company) may be issued upon exercise of all outstanding options granted under the Share Option Scheme.

SHARE OPTION SCHEME (Continued)

Details of options exercised, lapsed or cancelled and outstanding under the Share Option Scheme during the year are as follows:

	Date of grant	Exercise price per share HK$	Number of share options					Exercise period
			As at 1 January 2018	During the year			As at 31 December 2018	
				Exercised	Lapsed	Cancelled		
Directors								
Wang Zhiyong	16/12/2009	5.750	900,000	–	–	–	900,000	16/12/2009 – 24/05/2019
	07/11/2011	3.560	2,800,000	–	–	–	2,800,000	11/11/2011 – 24/05/2019
	19/12/2012	4.060	2,800,000	–	–	–	2,800,000	19/12/2012 – 24/05/2019
	20/12/2013	5.532	2,100,000	–	–	–	2,100,000	20/12/2013 – 24/05/2019
Cui Di	07/11/2011	3.560	300,000	–	–	–	300,000	11/11/2011 – 24/05/2019
	19/12/2012	4.060	800,000	–	–	–	800,000	19/12/2012 – 24/05/2019
	20/12/2013	5.532	1,800,000	–	–	–	1,800,000	20/12/2013 – 24/05/2019
Cheung Wing Yui, Edward	16/12/2009	5.750	300,000	–	–	–	300,000	16/12/2009 – 24/05/2019
	07/11/2011	3.560	100,000	–	–	–	100,000	11/11/2011 – 24/05/2019
	19/12/2012	4.060	100,000	–	–	–	100,000	19/12/2012 – 24/05/2019
	20/12/2013	5.532	100,000	–	–	–	100,000	20/12/2013 – 24/05/2019
Chan Ching Har, Eliza	16/12/2009	5.750	300,000	–	–	–	300,000	16/12/2009 – 24/05/2019
	07/11/2011	3.560	100,000	–	–	–	100,000	11/11/2011 – 24/05/2019
	19/12/2012	4.060	100,000	–	–	–	100,000	19/12/2012 – 24/05/2019
	20/12/2013	5.532	100,000	–	–	–	100,000	20/12/2013 – 24/05/2019
Cheng Hon Kwan	16/12/2009	5.750	300,000	–	–	–	300,000	16/12/2009 – 24/05/2019
	07/11/2011	3.560	100,000	–	–	–	100,000	11/11/2011 – 24/05/2019
	19/12/2012	4.060	100,000	–	–	–	100,000	19/12/2012 – 24/05/2019
	20/12/2013	5.532	100,000	–	–	–	100,000	20/12/2013 – 24/05/2019
Mak Kwai Wing, Alexander	16/12/2009	5.750	300,000	–	–	–	300,000	16/12/2009 – 24/05/2019
	07/11/2011	3.560	100,000	–	–	–	100,000	11/11/2011 – 24/05/2019
	19/12/2012	4.060	100,000	–	–	–	100,000	19/12/2012 – 24/05/2019
	20/12/2013	5.532	100,000	–	–	–	100,000	20/12/2013 – 24/05/2019
Ng Yi Kum, Estella	03/12/2010	6.070	300,000	–	–	–	300,000	03/12/2010 – 24/05/2019
	07/11/2011	3.560	100,000	–	–	–	100,000	11/11/2011 – 24/05/2019
	19/12/2012	4.060	100,000	–	–	–	100,000	19/12/2012 – 24/05/2019
	20/12/2013	5.532	100,000	–	–	–	100,000	20/12/2013 – 24/05/2019
Wong Shiu Hoi, Peter	20/12/2013	5.532	100,000	–	–	–	100,000	20/12/2013 – 24/05/2019
Continuous contract employees	16/12/2009	5.750	900,000	–	–	–	900,000	16/12/2009 – 24/05/2019
	07/11/2011	3.560	900,000	–	–	–	900,000	11/11/2011 – 24/05/2019
	19/12/2012	4.060	900,000	–	–	–	900,000	19/12/2012 – 24/05/2019
	20/12/2013	5.532	3,500,000	–	–	–	3,500,000	20/12/2013 – 24/05/2019
Total			20,800,000	–	–	–	20,800,000	

Details of the accounting policy adopted for the share options are set out in Notes 2(p) and 34 to the consolidated financial statements.

DIRECTORS' RIGHT TO ACQUIRE SHARES OR DEBENTURES

Apart from the Share Option Scheme of the Company, at no time during the year was the Company or any of its subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

As at 31 December 2018, the following persons or corporations, other than the directors or chief executive of the Company as disclosed above, had interests or short positions, in the shares or underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

Name of shareholder	notes	**Capacity**	**Number of shares held**	**Approximate percentage of total issued shares**
Tsinlien Investment Holdings	1&2	Interest of controlled corporation	673,759,143	62.81%
Tianjin Bohai State-owned Assets Management Co., Ltd. (天津渤海國有資產經營管理有限公司) ("Bohai")	1&2	Interest of controlled corporation	673,759,143	62.81%
Tianjin Pharmaceutical Group Co., Ltd. (天津市醫藥集團有限公司) ("Tianjin Pharmaceutical")	1&2	Interest of controlled corporation	673,759,143	62.81%
Tsinlien	1&3	Directly beneficially interest and interest of controlled corporation	673,759,143	62.81%
Central Huijin Investment Ltd. (中央匯金投資有限責任公司)	1&4	Interest of controlled corporation	54,746,000	5.10%
China Reinsurance (Group) Corporation (中國再保險（集團）股份有限公司)	1&4	Directly beneficially interest	54,746,000	5.10%

notes:

1. All interests stated above represent long positions.

2. Tsinlien is a direct wholly-owned subsidiary of Tianjin Pharmaceutical, which in turn is a direct wholly-owned subsidiary of Bohai and an indirect wholly-owned subsidiary of Tsinlien Investment Holdings. By virtue of the SFO, Tsinlien Investment Holdings, Bohai and Tianjin Pharmaceutical are deemed to be interested in the same parcel of shares of the Company in which Tsinlien is interested.

3. As at 31 December 2018, Tsinlien directly held 22,960,000 shares of the Company and its wholly-owned subsidiaries, namely Tianjin Investment Holdings Limited, Tsinlien Venture Capital Company Limited and Tsinlien Investment Limited held 568,017,143 shares, 2,022,000 shares and 80,760,000 shares of the Company respectively. By virtue of the SFO, Tsinlien is deemed to have an interest in the shares of the Company in which Tianjin Investment Holdings Limited, Tsinlien Venture Capital Company Limited and Tsinlien Investment Limited are interested.

4. Based on a corporate substantial shareholder notice, Central Huijin Investment Ltd. holds 71.56% equity interest in China Reinsurance (Group) Corporation. By virtue of the SFO, Central Huijin Investment Ltd. is deemed to have an interest in the shares of the Company in which China Reinsurance (Group) Corporation is interested.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES (Continued)

Save as disclosed above, as at 31 December 2018, the Company had not been notified by any person or corporation, other than the directors or chief executive of the Company, who had interests or short positions in the shares and underlying shares of the Company as recorded in the register required to be kept under section 336 of the SFO.

MANAGEMENT CONTRACTS

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

CONTINUING CONNECTED TRANSACTIONS

During the year, the Group entered into the following continuing connected transactions, details of these transactions are disclosed in compliance with the requirements of Chapter 14A of the Listing Rules:

(i) Master Sales Agreement

On 14 March 2016, the Company entered into a master sales agreement (the "2016 Master Sales Agreement") with Tianjin Pharmaceutical in relation to the sales of various chemical drug products and pharmaceutical printing and packaging products (the "Products") by members of the Group to members of Tianjin Pharmaceutical and its subsidiaries (other than members of the Group, the "Tianjin Pharmaceutical Group") for a term from 1 May 2016 to 31 December 2018. The price of the products shall be determined in accordance with the following principles:

(a) the price shall be that which members of the Group charge their independent third party customers in respect of the same Products under the same conditions;

(b) where there is no reference price available (e.g. in the case of the launch of new Products), the costs incurred by members of the Group in producing the new Products plus a profit margin ranging from 5% to 90%, and taking into account, among others, market conditions and the price of similar products offered by independent third party suppliers in the same region; or

(c) the Group may, based on the transaction quantity and payment terms, offer to the Tianjin Pharmaceutical Group the same discount which the Group offers to its independent third party customers.

For the year ended 31 December 2018, the total amount received by the Group from the Tianjin Pharmaceutical Group under the 2016 Master Sales Agreement was RMB80,464,000 (equivalent to HK$95,337,000), which is within the annual cap of RMB250,000,000 (equivalent to HK$296,209,000).

On 6 December 2018, the Company entered into a new master sales agreement with Tianjin Pharmaceutical to continue the transactions for a further term from 1 January 2019 to 31 December 2021.

CONTINUING CONNECTED TRANSACTIONS (Continued)

(ii) Master R&D Services Agreement

On 14 March 2016, the Company entered into a master R&D services agreement (the "2016 Master R&D Services Agreement") with Tianjin Pharmaceutical in relation to the provision of research and development of biomedical products, technology and related services (the "R&D Services") by members of the Group to members of the Tianjin Pharmaceutical Group for a term from 14 March 2016 to 31 December 2018. The service fee shall be determined in accordance with the following principles:

(a) the costs incurred by members of the Group in the process of providing the R&D Services (including but not limited to material costs, test processing costs, staff costs, cost for use of equipment and relevant management fees); and

(b) adding a profit margin of not less than 30% after taking into account the complexity and difficulty of the R&D Services to be provided, the estimated time required and the possible risks to be borne at different stages.

As stated in the Company's announcement dated 6 August 2018 and the circular dated 10 September 2018, TianJin Jinhao Pharmaceutical Co., Ltd. (天津金浩醫藥有限公司) entered into a joint cooperation agreement with Tianjin China Merchants Tianhe Pharmaceutical Technology Development Partnership (limited partnership) (天津招商天合醫藥科技發展合夥企業（有限合夥)) in relation to the partial disposal of equity interest in Tianjin Institute of Pharmaceutical Research Co., Ltd. (天津藥物研究院有限公司) ("Research Institute") on 6 August 2018. Upon completion of this transaction on 31 October 2018, Research Institute ceased to be a subsidiary of the Company. Accordingly, the provision of R&D Services pursuant to the 2016 Master R&D Services Agreement by Research Institute to members of Tianjin Pharmaceutical Group ceased to constitute continuing connected transactions of the Company.

For the period from 1 January 2018 to 31 October 2018, the total amount received by the Group from the Tianjin Pharmaceutical Group under the 2016 Master R&D Services Agreement was RMB300,000 (equivalent to HK$335,000), which is within the annual cap of RMB80,000,000 (equivalent to HK$94,787,000).

As Tianjin Pharmaceutical is an intermediate controlling shareholder of the Company and hence a connected person of the Company under the Listing Rules, therefore the entering into of the 2016 Master Sales Agreement, the 2016 Master R&D Services Agreement and the respective transactions contemplated thereunder constituted continuing connected transactions of the Company under the Listing Rules. Details of the above transactions were disclosed in the Company's announcements dated 14 March 2016 and 6 December 2018 and the circular dated 7 April 2016.

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

The independent non-executive directors of the Company have reviewed the continuing connected transactions and confirmed that the transactions disclosed above have been entered into: (1) in the ordinary and usual course of business of the Group; (2) on normal commercial terms or better; and (3) according to the agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate sales attributable to the Group's five largest customers accounted for less than 8% of the total sales for the year.

The percentage of the Group's purchases for the year attributable to the Group's major suppliers are as follows:

—	the largest supplier	9%
—	five largest suppliers in aggregation	20%

None of the directors, or any of their associates or any shareholder (which, to the knowledge of the directors, owns more than 5% of the Company's share capital) had any interest in the Group's major suppliers noted above.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has complied with the code provisions as set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules throughout the year ended 31 December 2018, except for the deviations as disclosed in the Corporate Governance Report as set out on page 32.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and to the knowledge of the directors, at least 25% of the Company's total issued share capital was held by the public at all times during the year.

INDEPENDENT AUDITOR

The financial statements have been audited by Deloitte Touche Tohmatsu who will retire and, being eligible, offer themselves for re-appointment.

By Order of the Board

Wang Zhiyong
Executive Director and General Manager

Hong Kong, 28 March 2019

Deloitte. 德勤

TO THE MEMBERS OF TIANJIN DEVELOPMENT HOLDINGS LIMITED
天津發展控股有限公司
(incorporated in Hong Kong with limited liability)

OPINION

We have audited the consolidated financial statements of Tianjin Development Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 60 to 179, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR OPINION

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

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current reporting 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 non-current assets relating to electrical and mechanical segment We identified the impairment assessment of non-current assets relating to electrical and mechanical segment as a key audit matter due to the fact that the electrical and mechanical segment incurred losses for the year ended 31 December 2018. The Group's management exercised significant judgement on the impairment testing, which requires the estimation of key assumptions in the preparation of cash flow projections and the discounted cash flow model. An impairment loss was recognised on property, plant and equipment relating to electrical and mechanical segment for the current year and further details are set out in Note 22(a) to the consolidated financial statements.	Our procedures in relation to the impairment assessment of non-current assets relating to electrical and mechanical segment included: • Evaluating the appropriateness of the key assumptions in the cash flow projections and the discounted cash flow model, including the discount rate, growth rate, budgeted sales and gross margin, by discussing with the management and with reference to our understanding of the industry; and • Evaluating the historical accuracy of management's budgeting process by comparing historical financial performance of the electrical and mechanical segment with the original forecasts.
Machine construction contract revenue and costs We identified the machine construction contract revenue and costs of hydroelectric equipment and large scale pump units as a key audit matter as there is a high degree of judgement involved in estimating and determining the final total outcome of the contracts as well as the progress of work, with reference to the proportion of construction costs incurred to the reporting period compared to the estimated costs of the contract at completion. The machine construction contract revenue and costs of hydroelectric equipment and large scale pump units are significant for the year ended 31 December 2018 and further details are set out in Note 3(g) to the consolidated financial statements.	Our procedures in relation to the machine construction contract revenue and costs included: • Discussing with project managers and management of the Group in respect of material machine construction projects and checking the supporting documents to evaluate the reasonableness of their basis of estimation of the latest budgeted costs, taking into account the profit margin, the duration and complexity of similar projects; and • Assessing the reasonableness of management's progress of work calculations by comparing the costs incurred and recorded to the payment certificates and invoices.

KEY AUDIT MATTERS (Continued)

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of interest in an associate — Tianjin Port Development Holdings Limited ("Tianjin Port")	
We identified the impairment assessment of interest in a listed associate — Tianjin Port as a key audit matter due to the fact that the carrying value of the Group's interest therein, including goodwill, exceeded the market value at the end of the reporting period. In estimating the value in use of the Group's interest, significant judgement has been exercised in the preparation of the discounted cash flows which require the estimation of key assumptions and inputs including discount rate, growth rates and expected dividend income. An impairment loss was recognised on the Group's interest in Tianjin Port and further details are set out in Note 22(b) to the consolidated financial statements.	Our procedures in relation to the impairment assessment of interest in a listed associate — Tianjin Port included: • Evaluating the appropriateness of the key assumptions in the discounted cash flows including the discount rate, growth rate and expected dividend income by discussing with management about Tianjin Port's business prospects and with reference to the future outlook and relevant industry growth forecast and historical dividend pay-out pattern of Tianjin Port; and • Evaluating the historical accuracy of the cash flow forecast by comparing historical financial performance of Tianjin Port to the actual result and obtaining explanation from management for any significant exceptions.

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 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 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 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional 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.

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

- 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.

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 Mr. Chan Tsz Wai.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
28 March 2019

Consolidated Statement of Profit or Loss

For the year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000 (restated)
Continuing operations			
Revenue	4	**5,391,500**	4,517,607
Cost of sales		**(3,311,851)**	(3,106,094)
Gross profit		**2,079,649**	1,411,513
Other income	5	**330,945**	297,395
Other gains, net	6	**243,917**	104,706
Selling and distribution expenses		**(1,127,398)**	(644,939)
General and administrative expenses		**(539,572)**	(651,543)
Other operating expenses		**(344,087)**	(345,489)
Finance costs	7	**(86,227)**	(63,434)
Share of profit (loss) of			
Associates	17	**327,854**	433,100
Joint ventures	18	**(8,982)**	(8,040)
Profit before tax		**876,099**	533,269
Tax expense	9	**(86,630)**	(32,219)
Profit for the year from continuing operations		**789,469**	501,050
Electricity business			
Profit for the year from electricity business	8	**84,179**	77,441
Profit for the year	10	**873,648**	578,491
Profit for the year attributable to owners of the Company			
— from continuing operations		**392,500**	415,764
— from electricity business		**79,431**	73,073
Profit for the year attributable to owners of the Company		**471,931**	488,837
Profit for the year attributable to non-controlling interests			
— from continuing operations		**396,969**	85,286
— from electricity business		**4,748**	4,368
Profit for the year attributable to non-controlling interests		**401,717**	89,654
		873,648	578,491
		HK cents	HK cents
Earnings per share	13		
Basic			
— continuing operations and electricity business		**43.99**	45.57
— continuing operations		**36.59**	38.76
Diluted			
— continuing operations and electricity business		**43.99**	45.53
— continuing operations		**36.59**	38.73

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Profit for the year		**873,648**	578,491
Other comprehensive (expense) income			
Items that will not be subsequently reclassified to profit or loss:			
Change in fair value of equity instruments at fair value through other comprehensive income	20	**(349,462)**	—
Remeasurement of defined benefit obligations	36	**—**	(8,209)
Deferred taxation on fair value change of equity instruments at fair value through other comprehensive income		**48,718**	—
Share of other comprehensive expense of an associate — fair value through other comprehensive income reserve		**(8,323)**	—
Items that may be subsequently reclassified to profit or loss:			
Currency translation differences			
— the Group		**(550,179)**	622,419
— associates		**(167,197)**	252,165
— joint ventures		**(1,429)**	2,798
Change in fair value of available-for-sale financial assets	20	**—**	(19,517)
Deferred taxation on fair value change of available-for-sale financial assets		**—**	1,530
Share of other comprehensive income of an associate — available-for-sale financial assets revaluation reserve		**—**	21,244
Other comprehensive (expense) income for the year		**(1,027,872)**	872,430
Total comprehensive (expense) income for the year		**(154,224)**	1,450,921
Attributable to:			
Owners of the Company		**(149,062)**	1,119,158
Non-controlling interests		**(5,162)**	331,763
		(154,224)	1,450,921

Consolidated Statement of Financial Position

As At 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	14	**3,334,259**	4,729,552
Land use rights	15	**367,572**	496,571
Investment properties	16	**190,895**	177,698
Interests in associates	17	**5,324,496**	5,013,540
Interests in joint ventures	18	**28,081**	38,492
Intangible assets	19	**17,854**	78,717
Deposits paid for acquisition of property, plant and equipment		**8,719**	21,182
Deferred tax assets	39	**44,785**	93,409
Available-for-sale financial assets	20	**—**	415,646
Equity instruments at fair value through other comprehensive income	20	**2,114,590**	—
Goodwill	21	**1,427**	1,495
		11,432,678	11,066,302
Current assets			
Inventories	23	**910,342**	586,705
Amounts due from joint ventures	24	**54,001**	54,634
Amount due from an associate	24	**175,117**	—
Amount due from ultimate holding company	24	**284**	260
Amounts due from related companies	25	**59,236**	48,038
Contract assets	26	**379,799**	—
Amounts due from customers for contract work	27	**—**	572,533
Trade receivables	28	**544,730**	921,465
Notes receivables	28	**361,169**	334,108
Other receivables, deposits and prepayments	28	**581,721**	590,998
Financial assets at fair value through profit or loss	29	**463,186**	388,603
Structured deposits	30	**52,179**	—
Entrusted deposits	31	**457,160**	645,933
Restricted bank balances	32	**231,063**	94,496
Time deposits with maturity over three months	32	**1,888,560**	1,403,018
Cash and cash equivalents	32	**3,981,992**	5,898,551
		10,140,539	11,539,342
Assets classified as held for sale — electricity business	8	**1,428,237**	—
		11,568,776	11,539,342
Total assets		**23,001,454**	22,605,644
EQUITY			
Owners of the Company			
Share capital	33	**5,136,285**	5,136,285
Reserves	35	**6,180,714**	5,840,170
		11,316,999	10,976,455
Non-controlling interests		**4,783,834**	3,770,735
Total equity		**16,100,833**	14,747,190

	Notes	2018 HK$'000	2017 HK$'000
LIABILITIES			
Non-current liabilities			
Defined benefit obligations	36	**–**	53,650
Deferred income	37	**–**	107,826
Bank borrowings	38	**–**	1,856,616
Deferred tax liabilities	39	**301,663**	37,772
		301,663	2,055,864
Current liabilities			
Trade payables	40	**987,954**	1,243,866
Notes payables	40	**97,533**	77,031
Other payables and accruals	41	**1,335,665**	2,775,699
Amounts due to related companies	25	**434,446**	824,228
Contract liabilities	42	**1,154,721**	–
Amounts due to customers for contract work	27	**–**	230,432
Bank borrowings	38	**2,156,606**	491,879
Current tax liabilities		**148,074**	159,455
		6,314,999	5,802,590
Liabilities associated with assets classified as held for sale — electricity business	8	**283,959**	–
		6,598,958	5,802,590
Total liabilities		**6,900,621**	7,858,454
Total equity and liabilities		**23,001,454**	22,605,644
Net current assets		**4,969,818**	5,736,752
Total assets less current liabilities		**16,402,496**	16,803,054

The consolidated financial statements on pages 60 to 179 were approved and authorised for issue by the Board of Directors on 28 March 2019 and are signed on its behalf by:

Wang Zhiyong
Director

Cui Di
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

		Owners of the Company					
	Notes	Share capital HK$'000	Other reserves HK$'000 (Note 35)	Retained earnings HK$'000	Sub-total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2017		5,136,285	(408,185)	5,176,074	9,904,174	3,473,189	13,377,363
Profit for the year		–	–	488,837	488,837	89,654	578,491
Other comprehensive income for the year		–	630,321	–	630,321	242,109	872,430
Total comprehensive income for the year		–	630,321	488,837	1,119,158	331,763	1,450,921
Dividends	12	–	–	(98,373)	(98,373)	(36,012)	(134,385)
Share-based payment expense	34	–	19,362	–	19,362	–	19,362
Transfer upon lapse of share options		–	(26,616)	26,616	–	–	–
Assets restructuring of an associate		–	25,374	–	25,374	–	25,374
Transfer between reserves		–	77,054	(77,054)	–	–	–
Others		–	6,760	–	6,760	1,795	8,555
		–	101,934	(148,811)	(46,877)	(34,217)	(81,094)
At 31 December 2017		5,136,285	324,070	5,516,100	10,976,455	3,770,735	14,747,190
Adjustments (Note 2)		–	684,077	(113,058)	571,019	1,174,377	1,745,396
At 1 January 2018 (restated)		**5,136,285**	**1,008,147**	**5,403,042**	**11,547,474**	**4,945,112**	**16,492,586**
Profit for the year		**–**	**–**	**471,931**	**471,931**	**401,717**	**873,648**
Other comprehensive expense for the year		**–**	**(620,993)**	**–**	**(620,993)**	**(406,879)**	**(1,027,872)**
Total comprehensive (expense) income for the year		**–**	**(620,993)**	**471,931**	**(149,062)**	**(5,162)**	**(154,224)**
Dividends	12	**–**	**–**	**(83,783)**	**(83,783)**	**(64,899)**	**(148,682)**
Disposal of subsidiaries	51(a)	**–**	**(65,882)**	**65,882**	**–**	**(92,997)**	**(92,997)**
Transfer between reserves		**–**	**48,903**	**(48,903)**	**–**	**–**	**–**
Others		**–**	**2,370**	**–**	**2,370**	**1,780**	**4,150**
		–	**(14,609)**	**(66,804)**	**(81,413)**	**(156,116)**	**(237,529)**
At 31 December 2018		**5,136,285**	**372,545**	**5,808,169**	**11,316,999**	**4,783,834**	**16,100,833**

	Notes	2018 HK$'000	2017 HK$'000
OPERATING ACTIVITIES			
Cash (used in) generated from operations	46	**(321,056)**	597,579
PRC income tax paid		**(78,448)**	(82,402)
Interest paid		**(89,481)**	(65,866)
NET CASH (USED IN) FROM OPERATING ACTIVITIES		**(488,985)**	449,311
INVESTING ACTIVITIES			
Proceeds from redemption of structured deposits		**1,300,948**	—
Proceeds from redemption of entrusted deposits		**1,120,853**	1,046,131
Dividends received from associates		**365,673**	351,713
Disposal of subsidiaries	51	**217,754**	620,845
Interest received		**189,708**	143,827
Proceeds from disposal of property, plant and equipment/land use rights		**77,922**	27,150
Proceeds from redemption of an entrusted loan		**35,545**	34,642
Dividend received from equity instruments at fair value through other comprehensive income		**17,836**	—
Dividends received from available-for-sale financial assets		**—**	23,531
Addition from structured deposits		**(1,355,107)**	—
(Increase) decrease in time deposits with maturity over three months		**(949,245)**	134,832
Addition of entrusted deposits		**(945,498)**	(1,212,471)
Purchase of property, plant and equipment/land use rights		**(409,851)**	(321,492)
(Addition) release of restricted bank balances		**(146,223)**	63,203
Addition of entrusted loans		**(35,545)**	(34,642)
Advance to joint ventures		**(1,931)**	(458)
NET CASH (USED IN) FROM INVESTING ACTIVITIES		**(517,161)**	876,811
FINANCING ACTIVITIES			
Drawdown of bank borrowings		**362,559**	461,930
Dividends paid		**(148,682)**	(134,385)
Repayment of bank borrowings		**(407,035)**	(419,465)
NET CASH USED IN FINANCING ACTIVITIES		**(193,158)**	(91,920)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(1,199,304)**	1,234,202
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		**5,898,551**	4,331,164
EFFECT OF FOREIGN EXCHANGE RATE CHANGES		**(215,855)**	333,185
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		**4,483,392**	5,898,551
Represented by:			
Cash and cash equivalents from continuing operations		**3,981,992**	5,898,551
Cash and cash equivalents classified as assets held for sale — electricity business	8	**501,400**	—
		4,483,392	5,898,551

1. GENERAL INFORMATION

Tianjin Development Holdings Limited (the "Company") and its subsidiaries (together the "Group") are principally engaged in (i) utilities including supply of electricity, water and heat and thermal power; (ii) pharmaceutical including manufacture and sale of chemical drugs, and research and development of new medicine technology and new products, as well as design, manufacture and printing for pharmaceutical packaging and sale of other paper-based packaging materials; (iii) hotel; (iv) electrical and mechanical including the manufacture and sale of presses, mechanical and hydroelectric equipment and large scale pump units; and (v) strategic and other investments including investments in associates which are principally engaged in the manufacture and sale of elevators and escalators and provision of port services in Tianjin, the People's Republic of China (the "PRC").

The Company is a limited liability company incorporated in Hong Kong. The address of its registered office is Suites 7–13, 36/F., China Merchants Tower, Shun Tak Centre, 168–200 Connaught Road Central, Hong Kong.

The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (Stock Code: 882). The directors of the Company consider Tsinlien Group Company Limited ("Tsinlien"), a company incorporated in Hong Kong, as the Company's ultimate holding company. Further details of Tsinlien are set out in Note 49(b).

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES

Basis of preparation

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

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

The consolidated financial statements have been prepared on the historical cost basis except for certain properties and 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".

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

Basis of preparation (Continued)

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

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

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 3.

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

The Group has applied the following new and amendments to HKFRSs issued by the 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 40	Transfers of Investment Property
Amendments to HKFRSs	Annual Improvements to HKFRSs 2014—2016 Cycle except for Amendments to HKFRS 12

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, 1 January 2018. Any difference at the date of initial application is recognised in the opening retained earnings and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 and HKAS 11 and the related interpretations.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

Basis of preparation (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:

- Revenue from sales of electricity, water, heat and thermal power
- Revenue from manufacture and sales of pharmaceutical products
- Revenue from provision of pharmaceutical research and development services
- Revenue from design, manufacture and printing for pharmaceutical packaging
- Revenue from hotel operation
- Revenue from manufacture and sales of presses and mechanical equipment
- Revenue from manufacture and sales of hydroelectric equipment and large scale pump unit

Information about the Group's performance obligations and the accounting policies resulting from application of HKFRS 15 are disclosed in Note 4 and below, respectively.

Summary of effects arising from initial application of HKFRS 15

The following table summarises the impact of transition to HKFRS 15 on retained earnings at 1 January 2018:

	Note	Impact of adopting HKFRS 15 at 1 January 2018 HK$'000
Increase (decrease) in retained earnings		
Remeasurement of revenue recognition in respect of sales of presses and mechanical equipment	(a)	**(39,505)**
Tax credit		**5,926**
Non-controlling interests		**11,783**
Impact at 1 January 2018 (restated)		**(21,796)**

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

Basis of preparation (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)

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

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

	Notes	Carrying amounts previously reported at 31 December 2017 HK$'000	Reclassification HK$'000	Remeasurement HK$'000	Carrying amounts under HKFRS 15 at 1 January 2018* HK$'000 (restated)
Current assets					
Inventories	(a)	586,705	–	381,814	**968,519**
Contract assets	(a) & (b)	–	476,564	–	**476,564**
Amounts due from customers for contract work	(a)	572,533	(387,888)	(184,645)	**–**
Trade receivables	(a) & (b)	921,465	(88,676)	(1,530)	**831,259**
Current liabilities					
Other payables and accruals	(c)	2,775,699	(1,003,256)	–	**1,772,443**
Contract liabilities	(a) & (c)	–	1,233,688	235,144	**1,468,832**
Amounts due to customers for contract work	(c)	230,432	(230,432)	–	**–**
Current tax liabilities	(a)	159,455	–	(5,926)	**153,529**
Equity					
Retained earnings	(a)	5,516,100	–	(21,796)	**5,494,304**
Non-controlling interests	(a)	3,770,735	–	(11,783)	**3,758,952**

* The amounts in this column are before the adjustments from the application of HKFRS 9.

Notes:

(a) The Group's contracts with customers for manufacture and sales of presses and mechanical equipment are tailor-made based on customers' specification and do not create the assets with alternative use to the Group. However, since the Group has no enforceable right to payment for performance completed to date, hence such revenue should be recognised at a point in time rather than over time upon application of HKFRS 15.

(b) At the date of initial application, retention receivables of HK$88,676,000 arising from electrical and mechanical contracts are conditional on the fulfilment of retention period as stipulated in the contracts, and hence such balance was reclassified from trade receivables to contract assets.

(c) As at 1 January 2018, receipts in advance from customers of HK$1,003,256,000 previously included in other payables and HK$230,432,000 previously classified as amounts due to customers for contract work were reclassified to contract liabilities.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

Basis of preparation (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)

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

The following tables summarise the impacts of applying HKFRS 15 on the Group's consolidated statement of financial position as at 31 December 2018 and its consolidated statement of profit or loss 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 HK$'000	Adjustments HK$'000	Amounts without application of HKFRS 15 HK$'000
Current assets			
Contract assets	379,799	(379,799)	—
Inventories	910,342	(42,941)	867,401
Amounts due from customers for contract work	—	336,453	336,453
Trade receivables	544,730	64,606	609,336
Current liabilities			
Other payables and accruals	1,335,665	874,386	2,210,051
Contract liabilities	1,154,721	(1,154,721)	—
Amounts due to customers for contract work	—	252,783	252,783
Current tax liabilities	148,074	881	148,955
Equity			
Retained earnings	5,808,169	3,569	5,811,738
Other reserves	372,545	(330)	372,215
Non-controlling interests	4,783,834	1,751	4,785,585

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

Basis of preparation (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)

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

Impact on the consolidated statement of profit or loss

	As reported HK$'000	Adjustments HK$'000	Amounts without application of HKFRS 15 HK$'000
Revenue	5,391,500	(366,663)	5,024,837
Cost of sales	(3,311,851)	333,626	(2,978,225)
Tax expense	(86,630)	4,956	(81,674)
Profit for the year	**873,648**	**(28,081)**	**845,567**

Impact on the consolidated statement of cash flows

	As reported HK$'000	Adjustments HK$'000	Amounts without application of HKFRS 15 HK$'000
OPERATING ACTIVITIES			
Profit before tax from continuing operations and electricity business	976,631	(33,037)	943,594
Adjustments for:			
Impairment loss, net of reversal			
— Trade receivables	(70,973)	43,406	(27,567)
— Contract assets	43,406	(43,406)	—
Other adjustments	(377,265)	—	(377,265)
Operating cash flows before movements in working capital	571,799	(33,037)	538,762
Decrease in trade receivables	55,007	(21,110)	33,897
Increase in inventories	(111,889)	(351,587)	(463,476)
Decrease in contract assets	16,481	(16,481)	—
Amounts due from/to customers for contract work	—	252,016	252,016
Increase in other payables and accruals	105,778	17,433	123,211
Decrease in contract liabilities	(152,766)	152,766	—
Cash used in operations	**(321,056)**	**—**	**(321,056)**
Net cash used in operating activities	**(488,985)**	**—**	**(488,985)**

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

Basis of preparation (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 and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirements for i) the classification and measurement of financial assets and financial liabilities, ii) expected credit losses for financial assets and contract assets and iii) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment under expected credit losses model) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained earnings and other components of equity, 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 below.

Summary of effects arising from initial application of HKFRS 9

From available-for-sale financial assets to equity instruments at fair value through other comprehensive income

At the date of initial application of HKFRS 9, an amount of HK$415,646,000 was reclassified from available-for-sale financial assets to equity instruments at fair value through other comprehensive income, of which HK$307,823,000 related to unlisted equity instruments previously measured at cost less impairment under HKAS 39. These investments are not held for trading and not expected to be sold in the foreseeable future. The fair value gains of HK$2,239,228,000 relating to those unlisted equity instruments previously carried at cost less impairment were adjusted to equity instruments at fair value through other comprehensive income, with corresponding adjustments of HK$336,745,000, HK$684,077,000 and HK$1,218,406,000 to increase the deferred tax liabilities, fair value through other comprehensive income reserve (included in other reserves) and non-controlling interests, respectively, as at 1 January 2018. The fair value gains of HK$99,171,000 relating to those equity instruments previously carried at fair value continued to accumulate in fair value through other comprehensive income reserve.

Financial assets at fair value through profit or loss

At the date of initial application, as the contractual right to cash flows of entrusted deposits of HK$645,933,000 no longer represents contractual cash flows that are solely payments of principal and interest on the principal outstanding to the Group, these financial assets are required to be measured at fair value through profit or loss under HKFRS 9. No fair value adjustment relating to these entrusted deposits previously carried at amortised cost was adjusted to retained earnings as at 1 January 2018 because the carrying value under HKAS 39 approximate to the fair value as at 1 January 2018.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

Basis of preparation (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)

Impairment under expected credit losses model

In relation to the impairment of financial assets, HKFRS 9 requires an expected credit losses model, as opposed to an incurred credit loss model under HKAS 39. The expected credit losses model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

In the current year, the Group has applied HKFRS 9 simplified approach to measure expected credit losses using a lifetime expected credit losses for trade receivables and contract assets. To measure the expected credit losses, trade receivables and contract assets have been assessed individually for significant balances and/or collectively using a provision matrix with appropriate groupings.

Loss allowance for other financial assets at amortised cost mainly comprise amount due from an associate, amounts due from joint ventures, amount due from ultimate holding company, amounts due from related companies, notes receivables, other receivables, restricted bank balances, time deposits with maturity over three months and cash and cash equivalents, are measured on 12-month expected credit losses basis and there had been no significant increase in credit risk since initial recognition.

As at 1 January 2018, additional credit loss allowance of HK$123,508,000 has been recognised against retained earnings. The additional loss allowance is charged against trade receivables and contract assets.

All loss allowances as at 31 December 2017 reconciled to the opening loss allowances as at 1 January 2018 are as follows:

	Trade receivables HK$'000	Contract assets HK$'000	Total HK$'000
At 31 December 2017			
— HKAS 39	140,645	N/A	140,645
Reclassification	(8,869)	8,869	—
Amounts remeasured through opening retained earnings and non-controlling interests	105,375	18,133	123,508
At 1 January 2018 (restated)	**237,151**	**27,002**	**264,153**

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

Basis of preparation (Continued)

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

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

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

	31 December 2017 HK$'000	HKFRS 15 HK$'000	HKFRS 9 HK$'000	1 January 2018 HK$'000 (restated)
Non-current assets				
Available-for-sale financial assets	415,646	–	(415,646)	**–**
Equity instruments at fair value through other comprehensive income	–	–	2,654,874	**2,654,874**
Current assets				
Inventories	586,705	381,814	–	**968,519**
Trade receivables	921,465	(90,206)	(105,375)	**725,884**
Contract assets	–	476,564	(18,133)	**458,431**
Amounts due from customers for contract work	572,533	(572,533)	–	**–**
Equity				
Fair value through other comprehensive income reserve (included in other reserves)	99,171	–	684,077	**783,248**
Retained earnings	5,516,100	(21,796)	(91,262)	**5,403,042**
Non-controlling interests	3,770,735	(11,783)	1,186,160	**4,945,112**
Non-current liability				
Deferred tax liabilities	37,772	–	336,745	**374,517**
Current liabilities				
Contract liabilities	–	1,468,832	–	**1,468,832**
Other payables and accruals	2,775,699	(1,003,256)	–	**1,772,443**
Amounts due to customers for contract work	230,432	(230,432)	–	**–**
Current tax liabilities	159,455	(5,926)	–	**153,529**

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

Basis of preparation (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[2]
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[3]
Amendments to HKAS 1 and HKAS 8	Definition of Material[5]
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015—2017 Cycle[1]

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

Except for the new 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.

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

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

HKFRS 16 "Leases" (Continued)

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 upfront prepaid lease payments as investing cash flows in relation to leasehold lands for own use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Upon application of HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing and operating cash flows respectively by the Group. Upfront prepaid lease payments will continue to be presented as investing cash flows.

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

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

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2018, the Group had non-cancellable operating lease commitments of HK$13,757,000 as disclosed in Note 43. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

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 retained earnings/non-controlling interests without restating comparative information.

Significant accounting policies

The principal accounting policies are set out below.

(a) Group accounting

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries made up to 31 December.

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. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary in the consolidated financial statements to ensure consistency with the policies adopted by the Group.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

Significant accounting policies (Continued)

(a) Group accounting (Continued)

(i) Merger accounting for common control combination

The consolidated financial statements incorporate the financial statements items of the combining businesses in which the common control combination occurs as if they had been combined from the date when the combining businesses first came under the control of the controlling party.

The net assets of the combining businesses are consolidated using the existing book values from the controlling party's perspective. No amount is recognised in respect of goodwill or bargain purchase gain at the time of common control combination.

The consolidated statement of profit or loss and consolidated statement of profit or loss and other comprehensive income include the results of each of the combining businesses from the earliest date presented or since the date when the combining businesses first came under the common control, where this is a shorter period.

The comparative amounts in the consolidated financial statements are presented as if the businesses had been combined at the end of the previous reporting period or when they first came under common control, whichever is shorter.

Transaction costs, including professional fees, registration fees, costs of furnishing information to shareholders, costs or losses incurred in combining operations of the previously separate businesses, etc., incurred in relation to the common control combination that is to be accounted for by using merger accounting is recognised as an expense in the year in which it is incurred.

(ii) Acquisition method of accounting for non-common control combination

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

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

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 "Income Taxes" and HKAS 19 "Employee Benefits", respectively;
- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with HKFRS 2 "Share-based Payment" at the acquisition date (see the accounting policy below); and
- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 "Non-current Assets Held for Sale and Discontinued Operations" are measured in accordance with that standard.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

Significant accounting policies (Continued)

(a) Group accounting (Continued)

(ii) Acquisition method of accounting for non-common control combination (Continued)

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 their fair value.

When the consideration transferred by the Group in a business combination includes a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured to fair value at subsequent reporting dates, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss or other comprehensive income, as appropriate. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income and measured under HKFRS 9/HKAS 39 would be accounted for on the same basis as would be required if the Group had disposed directly of the previously held equity interest.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted retrospectively during the measurement period (see above), and additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

Significant accounting policies (Continued)

(a) Group accounting (Continued)

(iii) Subsidiaries

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

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

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

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

Changes in the Group's ownership interests in existing subsidiaries

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

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

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

Significant accounting policies (Continued)

(a) Group accounting (Continued)

(iv) Associates and joint ventures

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.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates and joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. The financial statements of associates and joint ventures 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 or a joint venture 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 or joint venture. Changes in net assets of the associate or joint venture 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 or joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), 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 or joint venture.

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

The Group assesses whether there is an objective evidence that the interest in an associate or a joint venture 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 "Impairment of Assets" 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.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

Significant accounting policies (Continued)

(a) Group accounting (Continued)

(iv) Associates and joint ventures (Continued)

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

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

When the Group reduces its ownership interest in an associate or a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

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

(v) Non-controlling interests

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein.

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 in 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.

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

Significant accounting policies (Continued)

(a) Group accounting (Continued)

(vi) Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the 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 ("CGU") (or group of CGUs) 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 CGU (or group of CGUs) to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the CGU (or groups of CGUs) to which goodwill has been allocated is tested for impairment before the end of that reporting period. 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 a pro-rata basis based on the carrying amount of each asset in the unit (or group of CGUs).

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

The Group's policy for goodwill arising on the acquisition of an associate and a joint venture is described above.

(b) Segment reporting

It requires a "management approach" under which segment information is presented on the same basis as that used for internal reporting purposes. Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker who is responsible for allocating resources and assessing performance of the operating segments. The chief operating decision-maker has been identified as the executive directors who makes strategic decisions.

(c) Foreign currency translation

(i) Functional and presentation currency

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

The directors consider that presentation of the consolidated financial statements in Hong Kong dollar will facilitate analysis of the financial information of the Group.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

Significant accounting policies (Continued)

(c) Foreign currency translation (Continued)

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or revaluation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the retranslation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated statement of profit or loss.

Translation differences on non-monetary financial assets at fair value through profit or loss is reported as part of the fair value gain or loss. Translation differences on non-monetary equity instruments at fair value through other comprehensive income/available-for-sale financial assets are included in equity.

(iii) Group companies

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

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

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

- all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken to equity. When a foreign operation is disposed of that resulted in loss of control, exchange differences that were recorded in equity are recognised in the consolidated statement of profit or loss as part of the gain or loss on disposal.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rates at the end of each reporting period.

(d) Property, plant and equipment

Buildings comprise mainly hotel and office premises. All property, plant and equipment other than construction in progress are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the assets.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

Significant accounting policies (Continued)

(d) Property, plant and equipment (Continued)

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

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

The assets' depreciation method, residual values and estimated useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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

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.

(e) Land use rights

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

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

Significant accounting policies (Continued)

(f) Investment properties

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

Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

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

(g) Intangible assets

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination with finite useful lives are reported at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

(h) Impairment losses on tangible and intangible assets other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives 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).

Intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that they may be impaired.

The recoverable amount of tangible and intangible assets are estimated individually. When it is not possible to estimate the recoverable amount of an asset individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When 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 CGU) for which the estimates of future cash flows have not been adjusted.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

Significant accounting policies (Continued)

(h) Impairment losses on tangible and intangible assets other than goodwill (Continued)

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

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

(i) 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 1 January 2018. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) 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 fair value through profit or loss 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.

Financial assets

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

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

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

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

Significant accounting policies (Continued)

(i) Financial instruments (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions described above) (Continued)

Financial assets that meet the following conditions are subsequently measured at fair value through other comprehensive income:

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

A financial asset is classified as held for trading if:

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

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

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

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or fair value through other comprehensive income as measured at fair value through profit or loss if doing so eliminates or significantly reduces an accounting mismatch.

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.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

Significant accounting policies (Continued)

(i) Financial instruments (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions described above) (Continued)

Equity instruments designated as at fair value through other comprehensive income

Investments in equity instruments at fair value through other comprehensive income are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the fair value through other comprehensive income reserve (included in other reserves); 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 retained earnings.

Dividends on these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established in accordance with HKFRS 9, 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.

Financial assets at fair value through profit or loss

Financial assets that do not meet the criteria for being measured at amortised cost or fair value through other comprehensive income or designated as fair value through other comprehensive income are measured at fair value through profit or loss.

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

Impairment of financial assets (upon application HKFRS 9 with transitions described above)

The Group recognises a loss allowance for expected credit losses on financial assets which are subject to impairment under HKFRS 9 (including trade receivables) and contract assets. The amount of expected credit losses is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime expected credit losses represents the expected credit losses that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month expected credit losses represents the portion of lifetime expected credit losses that is expected to result from default events that are possible within twelve months after the reporting date. Assessments 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 expected credit losses for trade receivables and contract assets. Assessments are made collectively based on a provision matrix with appropriate groupings with reference to the Group's historical credit loss experience. The provision matrix is also adjusted for factors including general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

Significant accounting policies (Continued)

(i) Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (upon application HKFRS 9 with transitions described above) (Continued)

For all other instruments, the Group measures the loss allowance equal to 12-month expected credit losses, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime expected credit losses. The assessment of whether lifetime expected credit losses should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

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.

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

Significant accounting policies (Continued)

(i) Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (upon application HKFRS 9 with transitions described above) (Continued)

Significant increase in credit risk (Continued)

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.

Definition of default

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

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

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.

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. 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.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

Significant accounting policies (Continued)

(i) Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (upon application HKFRS 9 with transitions described above) (Continued)

Measurement and recognition of expected credit losses

The measurement of expected credit losses 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 expected credit losses reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

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

Where expected credit losses are 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 collective basis:

- Nature of financial instruments (i.e. the Group's trade and other receivables, finance lease receivables and amounts due from customers are each assessed as a separate group. Loans to related parties 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 and contract assets where the corresponding adjustment is recognised through a loss allowance account.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

Significant accounting policies (Continued)

(i) Financial instruments (Continued)

Financial assets (Continued)

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

The Group's financial assets are classified into the following three categories:

(i) Financial assets at fair value through profit or loss;

(ii) Loans and receivables; and

(iii) Available-for-sale financial assets.

The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Interest income is recognised on an effective interest basis for a debt instrument.

(i) Financial assets at fair value through profit or loss

Financial assets are classified as at fair value through profit or loss when the financial asset is (i) held for trading or (ii) contingent consideration that may be received by an acquirer as part of a business combination.

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.

Assets in these categories are initially recognised at fair value, and transaction costs are expensed in the consolidated statement of profit or loss, and are subsequently remeasured at their fair values. Gains and losses arising from changes in the fair values are included in the consolidated statement of profit or loss in the period in which they arise.

Dividend income and interest income from financial assets at fair value through profit or loss is recognised in the consolidated statement of profit or loss as part of other income when the Group's right to receive payments is established.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

Significant accounting policies (Continued)

(i) Financial instruments (Continued)

Financial assets (Continued)

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

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with expected or actual maturities greater than twelve months after the end of the reporting period which are classified as non-current assets.

Loans and receivables are recognised initially at fair value, net of transaction costs incurred. Subsequent to initial recognition, loans and receivables (including trade receivables, notes receivables, other receivables, amounts due from joint ventures, amount due from ultimate holding company, amounts due from related companies, entrusted deposits, restricted bank balances, time deposits with maturity over three months and cash and cash equivalents) are measured at amortised cost using the effective interest method, less any impairment.

(iii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any other categories. They are included in non-current assets unless management intends to dispose of the investment within twelve months of the end of the reporting period. They are measured at fair value at the end of each reporting period. Gains and losses arising from changes in the fair value are recognised in equity.

Changes in the carrying amount of available-for-sale equity securities relating to dividends on available-for-sale equity investments are recognised in profit or loss. Other changes in the carrying amount of available-for-sale financial assets are recognised in other comprehensive income and accumulated under the heading of available-for-sale financial assets revaluation reserve.

When the investment is disposed of or is determined to be impaired, the accumulated fair value adjustments recognised in equity are included in the consolidated statement of profit or loss as gains and losses from available-for-sale financial assets, included in other gains, net.

Dividends on available-for-sale equity instruments are recognised in the consolidated statement of profit or loss as part of other income when the Group's right to receive dividends is established.

Available-for-sale 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.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

Significant accounting policies (Continued)

(i) Financial instruments (Continued)

Financial assets (Continued)

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

Financial assets, other than those at fair value through profit or loss, 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 available-for-sale 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; or
- breach of contract, such as a default or delinquency in interest and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

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

For financial assets carried at amortised cost, the amount of the impairment loss recognised in profit or loss 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. 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.

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.

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.

In respect of available-for-sale equity investments carried at fair values, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated in available-for-sale financial assets revaluation reserve.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

Significant accounting policies (Continued)

(i) Financial instruments (Continued)

Financial assets (Continued)

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. 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 fair value through other comprehensive income upon application of HKFRS 9, the cumulative gain or loss previously accumulated in the fair value through other comprehensive income reserve is not reclassified to profit or loss, but is transferred to retained earnings.

On derecognition of an available-for-sale financial asset, the cumulative gain or loss previously accumulated in the available-for-sale financial assets revaluation reserve is reclassified to profit or loss.

(j) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises materials, direct labour and an appropriate portion of production overheads determined on a weighted average basis. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

(k) Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

(l) Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

(m) Borrowings

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

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

Significant accounting policies (Continued)

(n) Trade payables, notes payables, other payables, amounts due to related companies

These amounts are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method (as disclosed above).

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.

(o) Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

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

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

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, 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 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.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

Significant accounting policies (Continued)

(o) Current and deferred income tax (Continued)

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

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

(p) Employee benefits

(i) Retirement benefit costs and termination benefits

Employees of the Group's subsidiaries in the PRC are members of state-managed employee pension scheme operated by the Tianjin Municipal People's Government which undertakes to assume the retirement benefit obligations of all existing and future retired employees. The Group's obligation is to make the required contributions under the scheme. In addition, the Group also contributes to a mandatory provident fund scheme for all its employees in Hong Kong. Both schemes are defined contribution retirement benefit plans. All these contributions are based on a certain percentage of the staff's salary. Payments to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

The Group also provides supplementary pension benefits to certain retired PRC employees in the pharmaceutical segment, which are considered as defined benefit retirement benefit plans. For defined benefit retirement benefit plans, the cost of providing benefits is determined using the projected unit credit method, with actuarial valuations being carried out at the end of each annual reporting period. Remeasurement, comprising actuarial gains and losses, the effect of the changes to the asset ceiling (if applicable) and the return on plan assets (excluding interest), is reflected immediately in the consolidated statement of financial position with a charge or credit recognised in other comprehensive income in the period in which they occur. Remeasurement recognised in other comprehensive income is reflected immediately in other reserves and will not be reclassified to profit or loss. Past service cost is recognised in profit or loss in the period of a plan amendment. Net interest is calculated by applying the discount rate at the beginning of the period to the net defined benefit liability or asset.

Defined benefit costs are categorised as follows:

- service costs (including current service cost, past service cost, as well as gains and losses on curtailments and settlements);
- net interest expense or income; and
- remeasurement.

The Group presents the first two components of defined benefit costs in profit or loss as employee benefits expenses. Curtailment gains and losses are accounted for as past service costs.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

Significant accounting policies (Continued)

(p) Employee benefits (Continued)

(i) Retirement benefit costs and termination benefits (Continued)

The retirement benefit obligations recognised in the consolidated statement of financial position represents the actual deficit or surplus in the Group's defined benefit plans. Any surplus resulting from this calculation is limited to the present value of any economic benefits available in the form of refunds from the plans or reductions in future contributions to the plans.

Discretionary contributions made by employees or third parties reduce service cost upon payment of these contributions to the plan.

When the formal terms of the plans specify that there will be contributions from employees or third parties, the accounting depends on whether the contributions are linked to service, as follows:

- If the contributions are not linked to services (for example contributions are required to reduce a deficit arising from losses on plan assets or from actuarial losses), they are reflected in the remeasurement of the net defined benefit liability.
- If contributions are linked to services, they reduce service costs. For the amount of contribution that is dependent on the number of years of service, the entity reduces service cost by attributing the contributions to periods of service using the attribution method required by HKAS 19 paragraph 70 for the gross benefits. For the amount of contribution that is independent of the number of years of service, the entity reduces service cost by attributing contributions to the employees' periods of service in accordance with HKAS 19 paragraph 70.

A liability for a termination benefit is recognised at the earlier of when the Group entity can no longer withdraw the offer of the termination benefit and when it recognises any related restructuring costs.

(ii) Short-term and other long-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 unless another HKFRS requires or permits the inclusion of the benefit in the cost of an asset.

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

Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date. Any changes in the liabilities' carrying amounts resulting from service cost, interest and remeasurements are recognised in profit or loss except to the extent that another HKFRS requires or permits their inclusion in the cost of an asset.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

Significant accounting policies (Continued)

(p) Employee benefits (Continued)

(iii) Share-based compensation

The Group operates an equity-settled share-based compensation plan, under which the Group receives services from employees as considerations for equity instruments (options) of the Company. The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share-based payments reserve). The total amount expensed is recognised in full when vested immediately on grant date or over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest based on the assessment of all relevant non-market vesting condition. It recognises the impact of the revision of original estimates, if any, in profit or loss with a corresponding adjustment to equity over the vesting period.

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

The proceeds received net of any directly attributable transaction costs are credited to share capital when the options are exercised.

(q) Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions described above)

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

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

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

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

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

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

Significant accounting policies (Continued)

(q) Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions described above) (Continued)

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.

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

Output method

The progress towards complete satisfaction of a performance obligation is measured based on 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.

Input method

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

(r) Revenue recognition (prior to 1 January 2018)

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for value-added tax, business tax, returns and discounts. Revenue and other income are recognised as follows:

(i) Sales of goods are recognised when goods are delivered and titles have passed to customers.

(ii) Sales of electricity, water, heat and thermal power are recognised based on meter readings of actual utilisation.

(iii) Government supplemental income is recognised on accrual basis in accordance with the amounts agreed with the relevant government authority when there is reasonable assurance that the Group will comply with the conditions attaching to them.

(iv) Revenue from provision of research and development services are recognised when services are rendered and it is probable that the economic benefits will flow to the Group.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

Significant accounting policies (Continued)

(r) Revenue recognition (prior to 1 January 2018) (Continued)

(v) Revenue from transfer of technical know-how to customers, whereby the Group provides the customers with the right to the technical know-how together with further research and development services subsequently required and associated with the technical know-how. Under such multiple element arrangement, the consideration of each element is determined based on the amounts for each element stated in the customer contracts, which approximate to their relative fair values. The payment of the consideration is based on the milestones as defined in each customer contract.

Revenue in respect of the transfer of technical know-how is recognised when titles have been passed to customers and revenue in respect of the services rendered by the Group for the associated research and development services subsequently provided is recognised in accordance with the accounting policy mentioned in (iv) above.

(vi) Hotel revenue from room rentals, food and beverage sales and other ancillary services is recognised upon provision of services.

(vii) Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

(viii) Interest income is accrued on a time-proportion basis using the effective interest method.

(ix) Dividend income is recognised when the right to receive payment is established.

The Group's policy for the recognition of revenue from construction services is described in the accounting policy for machine construction contracts below.

Machine construction contracts

Where the outcome of a machine construction contract can be estimated reliably, revenue and costs are recognised by reference to the stage of completion of the contract activity at the end of the reporting period, measured based on the proportion that contract costs incurred for work performed to date relative to the estimated total contract costs.

Variations in contract work, claims and incentive payments are included to the extent that the amount can be measured reliably and its receipt is considered probable.

Where the outcome of a machine construction contract cannot be estimated reliably, contract revenue is recognised to the extent of contract costs incurred that it is probable will be recoverable. Contract costs are recognised as expenses in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Where contract costs incurred to date plus recognised profits less recognised losses exceed progress billings, the surplus is shown as amounts due from customers for contract work. For contracts where progress billings exceed contract costs incurred to date plus recognised profits less recognised losses, the surplus is shown as amounts due to customers for contract work. Amounts received before the related work is performed are included in the consolidated statement of financial position, as a liability. Amounts billed for work performed but not yet paid by the customer are included in the consolidated statement of financial position under trade receivables.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

Significant accounting policies (Continued)

(s) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

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

(t) Operating lease

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

(u) Dividend distribution

Dividend distribution to the Company's owners is recognised as a liability in the consolidated financial statements in the period in which the dividends are approved by the Company's directors/shareholders, as appropriate.

(v) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the consolidated financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

Significant accounting policies (Continued)

(w) Government grants

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

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Government grants related to depreciable assets are recognised as a deduction from the carrying amount of the relevant asset in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

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

(x) Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets that are acquired separately.

2. BASIS OF PREPARATION AND ACCOUNTING POLICIES (Continued)

Significant accounting policies (Continued)

(y) Non-current assets held for sale

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

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in the relevant subsidiary after the sale.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell, except for financial assets within the scope of HKFRS 9/HKAS 39 which continue to be measured in accordance with the accounting policies as set out in respective sections.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities of the Group are discussed below.

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.

Critical judgment in applying accounting policies

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

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

Critical judgment in applying accounting policies (Continued)

(a) Revenue recognition from manufacture and sales of presses and mechanical equipment at a point in time

Under HKFRS 15, control of the asset is transferred over time when 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. Significant judgment is required in determining whether the terms of the Group's contracts with customers in relation to manufacture and sales of presses and mechanical equipment create an enforceable right to payment for the Group. The Group has considered the relevant local laws that apply to those relevant contracts. Based on the assessment of the Group's management, the terms of the relevant sales contracts do not create an enforceable right to payment for the Group after taking into consideration indicators such as precedential cases. Accordingly, the manufacture and sales of presses and mechanical equipment is considered to be performance obligation satisfied at a point in time.

Key sources of estimation uncertainty

(a) Property, plant and equipment

Management determines the estimated useful lives and residual values for the Group's property, plant and equipment. Management will revise the depreciation charge where useful lives and residual values are different to those previously estimated, or it will write off or write down technically obsolete or non-strategically assets that have been abandoned or disposed of.

(b) Fair value of investment properties

Investment properties are carried in the consolidated statement of financial position as at 31 December 2018 at their fair values, details of which are disclosed in Note 16. The fair values of the investment properties were determined by reference to valuations conducted on these properties by independent firms of property valuers using property valuation techniques which involve certain assumptions of prevailing market conditions. Favourable or unfavourable changes to these assumptions may result in changes in the fair value of the Group's investment properties and corresponding adjustments to the changes in fair value reported in the consolidated statement of profit or loss and the carrying amounts of these properties included in the consolidated statement of financial position.

(c) Estimated impairment of non-current assets of the electrical and mechanical segment

The electrical and mechanical segment incurred losses for the year ended 31 December 2018. The impairment assessments had been carried out as to its corresponding non-current assets. Determining whether property, plant and equipment, land use rights (where there are indicators of impairment) and goodwill are impaired which requires an estimation of the recoverable amount of the respective CGU, which is the higher of value in use and fair value less costs of disposal and to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the respective CGU and a suitable discount rate in order to calculate the present value of the respective CGU. Where the actual cash flows are less than expected, a material impairment loss may arise. Further details are set out in Note 22(a).

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

Key sources of estimation uncertainty (Continued)

(d) Interests in associates

The Group's interests in associates are carried at its share of net assets of the associates together with premium on their acquisition less impairment loss.

As at 31 December 2018, the carrying value of the Group's interest in a major listed associate, Tianjin Port (as defined in Note 52), exceeded the market value (based on bid price quoted in an active market at 31 December 2018) of the Group's attributable holding therein by approximately HK$2,313 million (2017: approximately HK$2,304 million). The carrying value of the Group's interest in Tianjin Port included goodwill of approximately HK$821 million, net of impairment loss of HK$300 million (2017: approximately HK$1,121 million, net of nil impairment loss). Management has assessed the value in use of the Group's interest based on discounted cash flows. This assessment involves significant assumptions including discount rates, growth rates and expected dividend income. When the value in use is less than expected, a further impairment loss may arise. Further details are set out in Note 22(b).

(e) Recoverability of deferred tax assets

As at 31 December 2018, deferred tax assets of HK$44,785,000 (2017: HK$93,409,000) in relation to tax losses and other deductible temporary differences were recognised in the consolidated statement of financial position after offsetting certain deferred tax liabilities as set out in Note 39. The recoverability of the deferred tax assets mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In case where the expectation for future profit streams changes, a reversal of the deferred tax assets may arise, which will be charged to profit or loss for the period in which such a reversal takes place.

(f) Provision of expected credit losses for trade receivables and contract assets

The Group uses provision matrix to calculate expected credit losses for trade receivables and contract assets collectively. The provision rates are based on comparable default and recovery data from international credit-rating agencies and adjusted for forward-looking estimates. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered.

The provision of expected credit losses are sensitive to changes in estimates. The information about the expected credit losses and the Group's trade receivables and contract assets are disclosed in Notes 47, 28 and 26, respectively.

(g) Machine construction contracts

The Group recognises revenue from manufacture and sales of hydroelectric equipment and large scale pump units according to the management's estimation of the final outcome of the projects as well as the progress of work. Notwithstanding that the management closely reviews and revises the estimates of both contract revenue and costs for the machine construction contracts according to the contract progress, the actual outcome of the contracts in terms of their total revenue and/or costs may be higher or lower than the estimates and this will affect the amount of revenue and profit recognised in subsequent periods. During both years, the construction contracts cost estimated adjustments which were charged to profit or loss for the corresponding year are not material.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Continued)

Key sources of estimation uncertainty (Continued)

(h) Fair value measurements and valuation processes

Certain of the Group's financial assets representing unquoted equity instruments amounting to HK$2,029,492,000 as at 31 December 2018 are measured at fair values with fair values 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. Further details are disclosed in Note 47.

Some of the Group's assets are measured at fair value for financial reporting purposes. Management of the Group is responsible for determination of the appropriate valuation techniques and inputs for fair value measurements.

4. SEGMENT INFORMATION

The Group determines its operating segments based on the reports that are used to make strategic decisions and reviewed by the chief operating decision-makers (the "CODM"). The CODM assess the performance of the operating segments based on a measure of profit after tax.

The Group has six reportable segments. The segments are managed separately as each business offers different products and services. The accounting policies of the reportable segments are the same as those described in the basis of preparation and accounting policies. The following summary describes the operation in each of the Group's reportable segments.

(a) Utilities

This segment derives revenue from distribution of electricity, water, heat and thermal power to industrial, commercial and residential customers in the Tianjin Economic and Technological Development Area, the PRC.

(b) Pharmaceutical

This segment derives revenue from manufacture and sale of pharmaceutical products and the provision of pharmaceutical research and development services as well as design, manufacture and printing for pharmaceutical packaging in the PRC.

(c) Hotel

This segment derives revenue from operation of a hotel in Hong Kong.

(d) Electrical and mechanical

This segment derives revenue from manufacture and sale of presses, mechanical and hydroelectric equipment as well as large scale pump units.

(e) Port services

The result of this segment is contributed by a listed associate of the Group, Tianjin Port, which provides port services in Tianjin.

(f) Elevators and escalators

The result of this segment is contributed by an associate of the Group, Otis China (as defined in Note 52), which manufactures and sells elevators and escalators.

4. SEGMENT INFORMATION (Continued)

Disaggregation of revenue from contracts with customers

	For the year ended 31 December 2018						
	Continuing operations					Electricity business	
Segments	Utilities – water, heat and thermal power HK$'000	Pharmaceutical HK$'000	Hotel HK$'000	Electrical and mechanical HK$'000	Sub-total HK$'000	Utilities – electricity HK$'000	Total HK$'000
Types of goods or service							
Utilities							
Electricity	–	–	–	–	–	2,494,362	2,494,362
Water	380,481	–	–	–	380,481	–	380,481
Heat and thermal power	1,063,581	–	–	–	1,063,581	–	1,063,581
	1,444,062	–	–	–	1,444,062	2,494,362	3,938,424
Pharmaceutical							
Manufacture and sales of pharmaceutical products	–	2,357,195	–	–	2,357,195	–	2,357,195
Design, manufacture and printing for pharmaceutical packaging	–	98,198	–	–	98,198	–	98,198
Provision of research and development service	–	77,984	–	–	77,984	–	77,984
Other pharmaceutical related operations	–	41,432	–	–	41,432	–	41,432
	–	2,574,809	–	–	2,574,809	–	2,574,809
Hotel	–	–	127,739	–	127,739	–	127,739
Electrical and mechanical							
Manufacture and sales of presses and mechanical equipment	–	–	–	981,392	981,392	–	981,392
Manufacture and sales of hydroelectric equipment and large scale pump units	–	–	–	263,498	263,498	–	263,498
	–	–	–	1,244,890	1,244,890	–	1,244,890
	1,444,062	2,574,809	127,739	1,244,890	5,391,500	2,494,362	7,885,862
Timing of revenue recognition							
A point in time	1,444,062	2,496,825	–	981,392	4,922,279	2,494,362	7,416,641
Over time	–	77,984	127,739	263,498	469,221	–	469,221
	1,444,062	2,574,809	127,739	1,244,890	5,391,500	2,494,362	7,885,862

4. SEGMENT INFORMATION (Continued)

Performance obligations for contracts with customers

The Group recognises revenue from the following major sources:

- Revenue from sales of water, heat and thermal power are recognised at a point in time when the control of which has been transferred to customers with reference to the meter readings of actual utilisation.

- Revenue from manufacture and sales of pharmaceutical products are recognised at a point in time when the control of the goods has been transferred upon delivery.

- Revenue from provision of pharmaceutical research and development services and transfer of technical know-how to customers are recognised over time using the output method.

- Revenue from hotel operation, which mainly represents room rentals and other ancillary services, is recognised as revenue over the stay of guests and upon services provided, respectively.

- Revenue from manufacture and sales of presses and mechanical equipment are recognised at a point in time when the control of the goods has been transferred to customers upon delivery.

- Manufacture and sales of hydroelectric equipment and large scale pump units are recognised as revenue over the construction period based on the progress of work that creates or enhances such equipment by using input method.

4. SEGMENT INFORMATION (Continued)

Segment revenue and results

For the year ended 31 December 2018

	Continuing operations							Electricity business	
	Utilities – water, heat and thermal power HK$'000 (note i)	Pharmaceutical HK$'000	Hotel HK$'000	Electrical and mechanical HK$'000	Port services HK$'000	Elevators and escalators HK$'000	Sub-total HK$'000	Utilities – electricity HK$'000	Total operating segments HK$'000
Segment revenue – external customers	1,444,062	2,574,809	127,739	1,244,890	–	–	5,391,500	2,494,362	7,885,862
Operating profit (loss) before interest	62,725	255,127	33,936	(82,341)	–	–	269,447	91,637	361,084
Interest income	11,842	59,313	13	6,053	–	–	77,221	8,895	86,116
Gain on disposal of subsidiaries	–	622,323	–	–	–	–	622,323	–	622,323
Impairment loss on property, plant and equipment	–	(2,544)	–	(40,506)	–	–	(43,050)	–	(43,050)
Impairment loss on interests in associates	–	(8,711)	–	–	(300,000)	–	(308,711)	–	(308,711)
Finance costs	–	(16,034)	–	(14,611)	–	–	(30,645)	–	(30,645)
Share of (loss) profit of associates	–	(9,739)	–	–	90,330	241,969	322,560	–	322,560
Profit (loss) before tax	74,567	899,735	33,949	(131,405)	(209,670)	241,969	909,145	100,532	1,009,677
Tax expense	(5,461)	(48,521)	(5,593)	(7,284)	–	–	(66,859)	(16,353)	(83,212)
Segment results – profit (loss) for the year	69,106	851,214	28,356	(138,689)	(209,670)	241,969	842,286	84,179	926,465
Non-controlling interests	(6,150)	(361,086)	–	15,723	–	(41,764)	(393,277)	(4,748)	(398,025)
Profit (loss) attributable to owners of the Company	62,956	490,128	28,356	(122,966)	(209,670)	200,205	449,009	79,431	528,440
Segment results – profit (loss) for the year includes:									
Depreciation and amortisation	45,119	111,165	15,219	69,734	–	–	241,237	51,878	293,115

4. SEGMENT INFORMATION (Continued)

Segment revenue and results (Continued)

For the year ended 31 December 2017

	Continuing operations							Electricity business	
	Utilities – water, heat and thermal power HK$'000 (restated) (note i)	Pharmaceutical HK$'000	Hotel HK$'000	Electrical and mechanical HK$'000	Port services HK$'000	Elevators and escalators HK$'000	Sub-total HK$'000 (restated)	Utilities – electricity HK$'000 (restated)	Total operating segments HK$'000
Segment revenue – external customers	1,395,844	1,877,771	116,724	1,127,268	–	–	4,517,607	2,470,238	6,987,845
Operating profit (loss) before interest	48,804	168,529	22,175	(181,881)	–	–	57,627	108,546	166,173
Interest income	12,299	25,599	7	12,608	–	–	50,513	12,458	62,971
Gain on fair value change of a financial asset at fair value through profit or loss	–	73,561	–	–	–	–	73,561	–	73,561
Impairment loss on property, plant and equipment	–	(21,029)	–	–	–	–	(21,029)	–	(21,029)
Impairment loss on intangible assets	–	–	–	(57,919)	–	–	(57,919)	–	(57,919)
Finance costs	–	(11,613)	–	(11,532)	–	–	(23,145)	–	(23,145)
Share of (loss) profit of associates	–	(2,729)	–	–	162,665	266,739	426,675	–	426,675
Profit (loss) before tax	61,103	232,318	22,182	(238,724)	162,665	266,739	506,283	121,004	627,287
Tax (expense) credit	(7,232)	(16,295)	(3,659)	3,253	–	–	(23,933)	(43,563)	(67,496)
Segment results – profit (loss) for the year	53,871	216,023	18,523	(235,471)	162,665	266,739	482,350	77,441	559,791
Non-controlling interests	(4,823)	(85,926)	–	54,966	–	(46,039)	(81,822)	(4,368)	(86,190)
Profit (loss) attributable to owners of the Company	49,048	130,097	18,523	(180,505)	162,665	220,700	400,528	73,073	473,601
Segment results – profit (loss) for the year includes:									
Depreciation and amortisation	37,370	123,293	17,256	72,923	–	–	250,842	41,811	292,653

4. SEGMENT INFORMATION (Continued)

Segment revenue and results (Continued)

	2018 HK$'000	2017 HK$'000
Reconciliation of profit for the year		
Total reportable segments	**926,465**	559,791
Corporate and others (note ii)	**(52,817)**	18,700
Profit for the year	**873,648**	578,491

notes:

(i) Revenue from supply of water and heat and thermal power to external customers amounted to HK$380,481,000 and HK$1,063,581,000 respectively (2017: HK$372,253,000 and HK$1,023,591,000 respectively).

The above revenue included government supplemental income of HK$170,553,000 (2017: HK$185,566,000).

(ii) These principally include (a) results of the Group's other non-core businesses which are not categorised as reportable segments; and (b) corporate level activities including central treasury management, administrative function and exchange gain or loss.

Segment assets and liabilities

	Continuing operations						Electricity business			
	Utilities– water, heat and thermal power HK$'000	Pharmaceutical HK$'000	Hotel HK$'000	Electrical and mechanical HK$'000	Port services HK$'000	Elevators and escalators HK$'000	Utilities– electricity HK$'000	Total reportable segments HK$'000	Corporate and others HK$'000 (note)	Total HK$'000
As at 31 December 2018										
Segment assets	**2,125,314**	**7,997,889**	**532,572**	**2,555,404**	**3,386,239**	**760,006**	**1,428,237**	**18,785,661**	**4,215,793**	**23,001,454**
Segment liabilities	**1,533,294**	**1,258,997**	**11,793**	**1,844,470**	**–**	**–**	**283,959**	**4,932,513**	**1,968,108**	**6,900,621**

	Utilities HK$'000	Pharmaceutical HK$'000	Hotel HK$'000	Electrical and mechanical HK$'000	Port services HK$'000	Elevators and escalators HK$'000	Total reportable segments HK$'000	Corporate and others HK$'000 (note)	Total HK$'000
As at 31 December 2017									
Segment assets	4,014,891	6,390,381	561,495	2,963,813	3,791,018	854,587	18,576,185	4,029,459	22,605,644
Segment liabilities	2,356,381	1,571,938	14,324	1,980,328	–	–	5,922,971	1,935,483	7,858,454

note: The balances represent assets and liabilities relating to corporate and other non-core businesses which are not categorised as reportable segments and principally include the attributable cash and cash equivalents, time deposits with maturity over three months, entrusted deposits, financial assets at fair value through profit or loss, property, plant and equipment, investment properties, available-for-sale financial assets/equity instruments at fair value through other comprehensive income, interests in certain associates and bank borrowings.

4. SEGMENT INFORMATION (Continued)

Other segment information

An analysis of the Group's revenue by geographical location of the operations of the relevant subsidiaries is as follows:

	2018 HK$'000	2017 HK$'000 (restated)
The PRC	**5,263,761**	4,400,883
Hong Kong	**127,739**	116,724
Continuing operations	**5,391,500**	4,517,607
Electricity business — the PRC	**2,494,362**	2,470,238
	7,885,862	6,987,845

The Group's non-current assets (excluding financial assets and deferred tax assets) by geographical location of the assets are detailed below:

	2018 HK$'000	2017 HK$'000
The PRC	**8,811,114**	10,085,261
Hong Kong	**462,189**	471,986
	9,273,303	10,557,247

5. OTHER INCOME

	2018 HK$'000	2017 HK$'000 (restated)
Continuing operations		
Interest income	**190,851**	131,369
Government grants	**28,763**	92,992
Dividend income from available-for-sale financial assets	**—**	23,531
Dividend income from equity instruments at fair value through other comprehensive income held at the end of the reporting period	**17,836**	—
Rental income under operating leases, net of negligible outgoings	**6,390**	4,643
Sales of scrap materials	**4,914**	2,075
Sundries	**82,191**	42,785
	330,945	297,395

6. OTHER GAINS, NET

	2018 HK$'000	2017 HK$'000 (restated)
Continuing operations		
Impairment loss on interests in associates (Note 17)	**(308,711)**	—
Impairment loss on intangible assets (Note 19)	**—**	(57,919)
Impairment loss on property, plant and equipment (Note 14)	**(43,050)**	(21,029)
Net gain on disposal/written off of property, plant and equipment	**1,044**	2,173
Net exchange (loss) gain	**(43,049)**	82,412
Reversal of (allowance for) impairment losses (note)		
— Trade receivables	**53,955**	(6,060)
— Contract assets	**(43,406)**	—
— Other receivables	**997**	(252)
Allowance for inventories	**—**	(2,380)
Gain on disposal of subsidiaries (Note 51)	**622,323**	11,392
Gain on fair value change of a financial asset at fair value through profit or loss	**—**	73,561
Increase in fair value of investment properties (Note 16)	**28,453**	—
Net fair value gain (loss) on financial assets held for trading		
— listed	**5,543**	734
— unlisted	**(30,182)**	22,074
	243,917	104,706

note: Details of impairment assessment for the year ended 31 December 2018 are set out in Note 47(b).

7. FINANCE COSTS

	2018 HK$'000	2017 HK$'000
Continuing operations		
Interest expenses on bank borrowings	**84,936**	63,691
Interest expenses on amount due to a related company (Note 49(b))	**4,545**	2,175
	89,481	65,866
Less: Amounts capitalised on construction in progress (included in property, plant and equipment)	**(3,254)**	(2,432)
	86,227	63,434

8. OPERATION OF ELECTRICITY BUSINESS

On 6 December 2018, Tianjin TEDA Electric Power Co., Ltd. (天津泰達電力有限公司) ("TEDA Power") and Tianjin TEDA Tsinlien Electric Power Co., Ltd. (天津泰達津聯電力有限公司) ("Tsinlien Electric"), a non-wholly owned subsidiary of the Group, entered into the absorption and merger agreement, pursuant to which TEDA Power will absorb and merge with Tsinlien Electric, and TEDA Power will be the surviving company upon completion of the merger and will take up and assume all the assets, liabilities and business operations of Tsinlien Electric. Tsinlien Electric will then be deregistered and cease to exist as a legal entity. Upon the completion of merger, TEDA Power will be owned as to approximately 47.09% and 52.91% by the Group and Tianjin TEDA Investment Holding Co., Ltd. (天津泰達投資控股有限公司).

The assets and liabilities attributable to Tsinlien Electric, which are expected to be merged into TEDA Power within 12 months from the end of the reporting period, have been classified as a disposal group held for sale and are presented separately in the consolidated statement of financial position.

The profit for the year from electricity business is set out below. The comparative figures in the consolidated statement of profit or loss have been restated to re-present electricity business as a discontinued operation.

	Year ended 31 December 2018 HK$'000	Year ended 31 December 2017 HK$'000
Revenue	**2,494,362**	2,470,238
Cost of sales	**(2,333,653)**	(2,268,010)
	160,709	202,228
Other income	**9,491**	13,149
Other gains, net	**16,625**	5,349
Selling and distribution expenses	**(19,899)**	(20,720)
General and administrative expenses	**(60,776)**	(74,112)
Other operating expenses	**(5,618)**	(4,890)
Profit before tax	**100,532**	121,004
Tax expense	**(16,353)**	(43,563)
Profit for the year	**84,179**	77,441
Attributable to:		
Owner of the Company	**79,431**	73,073
Non-controlling interests	**4,748**	4,368
	84,179	77,441

8. OPERATION OF ELECTRICITY BUSINESS (Continued)

	Year ended 31 December 2018 HK$'000	Year ended 31 December 2017 HK$'000
Profit for the year from electricity business is arrived at after charging (crediting):		
Employees' benefits expense	**132,492**	127,575
Cost of inventories recognised as an expense	**2,202,945**	2,068,312
Depreciation		
— charged to cost of sales	**49,446**	39,407
— charged to administrative expenses	**1,675**	1,631
— charged to selling expenses	**336**	363
Amortisation of land use rights	**421**	410
Operating lease expenses on		
— plants, pipelines and networks	**72,512**	70,030
— land and buildings	**1,984**	2,076
Auditor's remuneration	**949**	40
(Reversal of) allowance for impairment losses on trade receivables	**(17,018)**	628

During the year, the electricity business contributed HK$269 million (2017: HK$140 million) to the net cash outflows in operating activities and contributed HK$217 million (2017: HK$15 million) to net cash outflows in investing activities.

The major classes of assets and liabilities of the electricity business as at 31 December 2018, which have been presented separately in the consolidated statement of financial position, are as follows:

	HK$'000
Property, plant and equipment	**470,610**
Land use rights	**12,757**
Deferred tax assets	**30,162**
Inventories	**22**
Trade receivables (note)	**49,611**
Other receivables, deposits and prepayments	**14,237**
Time deposits with maturity over three months	**349,438**
Cash and cash equivalents	**501,400**
Total assets classified as held for sale	**1,428,237**
Trade and other payables and total liabilities associated with assets classified as held for sale	**(283,959)**

note: As at 31 December 2018, trade receivables, net of impairment losses, of HK$47,496,000 and HK$2,115,000 were aged within 30 days and over 1 year, respectively:

Cumulative amount of HK$109,737,000 relating to the electricity business classified as held for sale has been recognised in other comprehensive income and included in equity.

9. TAX EXPENSE

	2018 HK$'000	2017 HK$'000 (restated)
Continuing operations		
Current taxation		
PRC Enterprise Income Tax ("EIT")	**76,182**	33,022
Deferred taxation (Note 39)	**10,448**	(803)
	86,630	32,219

No provision for Hong Kong profits tax has been made as there was no estimated assessable profit derived from Hong Kong during the year (2017: Nil).

The Group's PRC subsidiaries are subject to EIT at a rate of 25% except for certain PRC subsidiaries which are subject to a preferential EIT rate of 15% as they are qualified as High and New Technology Enterprises.

The tax expense on the Group's profit before tax differs from the theoretical amount that would arise using the applicable tax rate, being the weighted average of rates prevailing in the territories in which the Group's principal subsidiaries operate, as follows:

	2018 HK$'000	2017 HK$'000 (restated)
Continuing operations		
Profit before tax	**876,099**	533,269
Less: share of results of associates and joint ventures	**(318,872)**	(425,060)
	557,227	108,209
Calculated at applicable tax rates	**135,523**	30,309
Income not subject to taxation	**(180,610)**	(52,850)
Expenses not deductible for taxation purposes	**107,706**	34,546
Overprovision in prior years	**(1,762)**	(199)
Utilisation of tax losses previously not recognised	**(608)**	(4,112)
Tax losses not recognised	**26,381**	24,525
Tax expense	**86,630**	32,219

The weighted average applicable tax rate is 24.32% (2017: 28.01%).

10. PROFIT FOR THE YEAR

	2018	2017
	HK$'000	HK$'000
		(restated)
Profit for the year from continuing operations is arrived at after charging:		
Employees' benefits expense (including directors' emoluments) (Note 11)	**763,470**	858,261
Cost of inventories recognised as an expense	**2,296,775**	1,661,141
Depreciation		
— charged to cost of sales	**151,979**	158,917
— charged to administrative expenses	**68,703**	62,945
— charged to selling expenses	**993**	1,032
— charged to other operating expenses	**23,838**	17,256
Amortisation of land use rights	**8,287**	11,646
Amortisation of intangible assets	**259**	13,316
Operating lease expenses on		
— plants, pipelines and networks	**70,949**	64,794
— land and buildings	**10,264**	14,536
Auditor's remuneration	**11,297**	11,023
Share-based payment expense (Note 34)	**—**	19,362
Research and development costs charged to other operating expenses	**313,988**	283,257

11. EMPLOYEES' BENEFITS EXPENSE

	2018	2017
	HK$'000	HK$'000
Wages, salaries, bonus and social security costs recognised under continuing operations	**763,470**	858,261

11. EMPLOYEES' BENEFITS EXPENSE (Continued)

(a) Emoluments of directors and chief executive

The emoluments paid or payable to each of the directors (including the chief executive) disclosed pursuant to the Listing Rules and the Hong Kong Companies Ordinance are as follows:

For the year ended 31 December 2018

Name of director	Fees HK$'000	Salaries and other benefits[i] HK$'000	Discretionary bonuses HK$'000	Retirement scheme contributions HK$'000	Share-based payment expense HK$'000	Total HK$'000
Executive Directors:						
Wang Zhiyong [ii]	–	–	–	–	–	–
Cui Di [ii]	–	–	–	–	–	–
Yang Chuan	–	838	–	–	–	838
Zeng Xiaoping [ii], [iii]	–	–	–	–	–	–
Non-Executive Directors:						
Cheung Wing Yui, Edward	318	60	–	–	–	378
Chan Ching Har, Eliza	318	60	–	–	–	378
Independent Non-Executive Directors:						
Cheng Hon Kwan	382	60	–	–	–	442
Mak Kwai Wing, Alexander	382	60	–	–	–	442
Ng Yi Kum, Estella	382	60	–	–	–	442
Wong Shiu Hoi, Peter	382	60	–	–	–	442
Loke Yu	382	60	–	–	–	442
	2,546	1,258	–	–	–	3,804

11. EMPLOYEES' BENEFITS EXPENSE (Continued)

(a) Emoluments of directors and chief executive (Continued)

For the year ended 31 December 2017

Name of director	Fees	Salaries and other benefits[i]	Discretionary bonuses	Retirement scheme contributions	Share-based payment expense	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Executive Directors:						
Zeng Xiaoping	–	1,923	–	62	–	1,985
Wang Zhiyong	–	919	–	62	9,211	10,192
Cui Di	–	750	–	62	2,565	3,377
Yang Chuan	–	812	–	–	–	812
Zhang Lili [iv]	–	–	–	–	–	–
Tuen Kong, Simon [v]	–	2,094	320	18	1,886	4,318
Non-Executive Directors:						
Cheung Wing Yui, Edward	318	60	–	–	510	888
Chan Ching Har, Eliza	318	60	–	–	510	888
Independent Non-Executive Directors:						
Cheng Hon Kwan	382	60	–	–	510	952
Mak Kwai Wing, Alexander	382	60	–	–	510	952
Ng Yi Kum, Estella	382	60	–	–	489	931
Wong Shiu Hoi, Peter	382	60	–	–	66	508
Loke Yu	382	60	–	–	–	442
	2,546	6,918	320	204	16,257	26,245

[i] Other benefits include allowance, insurance premium, club membership, leave pay and gratuity on retirement.

[ii] During the year ended 31 December 2018, the director's emoluments were borne by Tianjin Tsinlien Investment Holdings Co., Ltd. (天津津聯投資控股有限公司).

[iii] Retired on 31 July 2018.

[iv] Removed on 17 February 2017.

[v] Resigned on 6 June 2017.

[vi] The executive directors' emoluments shown above were for their services in connection with the management of the affairs of the Company. Dr. Yang Chuan receives his emolument from a subsidiary of the Company.

[vii] The emoluments of non-executive directors and independent non-executive directors shown above were for their services as directors of the Company.

[viii] There was no compensation for loss of office and/or inducement for joining the Group paid/payable to the directors of the Company in respect of the years ended 31 December 2018 and 2017.

11. EMPLOYEES' BENEFITS EXPENSE (Continued)

(b) Five highest paid individuals

For the year ended 31 December 2017, the five highest paid individuals of the Group included one former director (2018: Nil) and three directors (2018: Nil), and their emoluments are shown in Note 11(a) above. The emoluments of the five individuals with the highest emoluments for the years ended 31 December 2018 and 2017 were as follows:

	2018 HK$'000	2017 HK$'000
Salaries and other benefits	6,686	7,047
Discretionary bonuses	1,086	700
Share-based payment expense	–	15,516
Retirement scheme contributions	186	268
	7,958	23,531

The emoluments of the five highest paid individuals fell within the following bands:

	2018	2017
Emolument bands (HK$)		
1,000,001 – 1,500,000	2	–
1,500,001 – 2,000,000	2	1
2,000,001 – 2,500,000	1	–
2,500,001 – 3,000,000	–	–
3,000,001 – 3,500,000	–	1
3,500,001 – 4,000,000	–	1
4,000,001 – 4,500,000	–	1
10,000,001 – 10,500,000	–	1
	5	5

11. EMPLOYEES' BENEFITS EXPENSE (Continued)

(c) Emoluments of senior management

Other than the emoluments of directors disclosed in Note 11(a), the aggregate emoluments of senior management of the Group are as follows:

	2018 HK$'000	2017 HK$'000
Salaries and other benefits	**4,379**	2,883
Discretionary bonuses	**748**	475
Share-based payment expense	**—**	1,251
Retirement scheme contributions	**54**	99
	5,181	4,708

The emoluments of the senior management fell within the following bands:

	2018	2017
Emolument bands (HK$)		
500,001 — 1,000,000	**—**	2
1,000,001 — 2,000,000	**2**	2
2,000,001 — 3,000,000	**1**	—
	3	4

12. DIVIDENDS

	2018 HK$'000	2017 HK$'000
Dividends recognised as distribution during the year		
— 2018 interim dividend, paid — HK3.26 cents per share (2017: HK4.08 cents per share)	**34,972**	43,769
— 2017 final dividend, paid — HK4.55 cents per share (2016: HK5.09 cents per share)	**48,811**	54,604
	83,783	98,373

A final dividend of HK4.78 cents per share for the year ended 31 December 2018, amounting to HK$51,278,400, has been proposed by the board of directors of the Company and will be subject to the approval by the shareholders at the forthcoming annual general meeting.

13. EARNINGS PER SHARE

For continuing operations and electricity business

The calculation of the basic and diluted earnings per share from continuing operations and electricity business attributable to owners of the Company is based on the following data:

	2018	2017
	HK$'000	HK$'000
Profit attributable to owners of the Company for the purposes of basic and diluted earnings per share — from continuing operations and electricity business	**471,931**	488,837

Number of shares

	Thousand	Thousand
Number of ordinary shares for the purpose of basic earnings per share	**1,072,770**	1,072,770
Effect of dilutive potential ordinary shares:		
Share options (note)	**—**	855
Weighted average number of ordinary shares taking account of the share options for the purpose of diluted earnings per share	**1,072,770**	1,073,625

note: The computation of diluted earnings per share for the year ended 31 December 2018 did not consider the effect of exercise of the Company's share options as the exercise prices of those share options were higher than the average market price of shares.

For continuing operations

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

	2018	2017
	HK$'000	HK$'000
Profit attributable to owners of the Company for the purposes of basic and diluted earnings per share — from continuing operations	**392,500**	415,764

For electricity business

Basic earnings per share for the electricity business is HK7.40 cents per share (2017: HK6.81 cents per share) and diluted earnings per share for the electricity business is HK7.40 cents per share (2017: HK6.80 cents per share) based on the profit for the year from the electricity business of HK$79,431,000 (2017: HK$73,073,000) and the denominators detailed above for both basic and diluted earnings per share.

14. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$'000	Leasehold land HK$'000	Plant and machinery HK$'000	Leasehold improvements, furniture and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Others HK$'000	Total HK$'000
COST								
At 1 January 2018	**3,451,346**	**326,622**	**3,074,926**	**220,939**	**50,157**	**420,721**	**14,339**	**7,559,050**
Exchange differences	**(151,145)**	**–**	**(145,422)**	**(9,339)**	**(2,059)**	**(25,041)**	**(702)**	**(333,708)**
Additions	**25,504**	**–**	**152,754**	**30,241**	**4,743**	**193,836**	**1,134**	**408,212**
Transfers	**42,186**	**–**	**98,470**	**1,584**	**260**	**(142,500)**	**–**	**–**
Disposals/written off	**(56,574)**	**–**	**(104,811)**	**(15,986)**	**(11,452)**	**–**	**(159)**	**(188,982)**
Disposal of subsidiaries (Note 51(a))	**(370,379)**	**–**	**(243,328)**	**(49,191)**	**(12,552)**	**(295,852)**	**(833)**	**(972,135)**
Classified as held for sale (Note 8)	**(186,207)**	**–**	**(633,886)**	**(24,213)**	**(1,797)**	**(17,729)**	**(860)**	**(864,692)**
At 31 December 2018	**2,754,731**	**326,622**	**2,198,703**	**154,035**	**27,300**	**133,435**	**12,919**	**5,607,745**
ACCUMULATED DEPRECIATION AND IMPAIRMENT								
At 1 January 2018	**811,048**	**64,410**	**1,724,619**	**159,954**	**35,131**	**24,772**	**9,564**	**2,829,498**
Exchange differences	**(37,693)**	**–**	**(82,071)**	**(6,924)**	**(1,534)**	**(1,131)**	**(451)**	**(129,804)**
Charge for the year	**123,470**	**297**	**129,360**	**33,942**	**9,443**	**–**	**458**	**296,970**
Impairment loss recognised (Note 6)	**–**	**–**	**43,050**	**–**	**–**	**–**	**–**	**43,050**
Disposals/written off	**(11,622)**	**–**	**(76,428)**	**(12,606)**	**(10,958)**	**–**	**(97)**	**(111,711)**
Disposal of subsidiaries (Note 51(a))	**(81,929)**	**–**	**(128,403)**	**(38,753)**	**(11,198)**	**–**	**(152)**	**(260,435)**
Classified as held for sale (Note 8)	**(82,527)**	**–**	**(292,728)**	**(17,282)**	**(1,036)**	**–**	**(509)**	**(394,082)**
At 31 December 2018	**720,747**	**64,707**	**1,317,399**	**118,331**	**19,848**	**23,641**	**8,813**	**2,273,486**
CARRYING VALUE								
At 31 December 2018	**2,033,984**	**261,915**	**881,304**	**35,704**	**7,452**	**109,794**	**4,106**	**3,334,259**
COST								
At 1 January 2017	3,015,979	326,622	2,711,196	201,989	52,327	1,061,756	8,676	7,378,545
Exchange differences	207,588	–	191,763	11,796	3,114	57,429	478	472,168
Additions	27,855	–	58,899	14,609	1,632	250,663	5,832	359,490
Transfers	250,497	–	141,197	1,676	94	(394,684)	1,220	–
Disposals/written off	(3,929)	–	(28,129)	(9,131)	(7,010)	–	(1,867)	(50,066)
Disposal of subsidiaries (Note 51(b))	(31,647)	–	–	–	–	(554,443)	–	(586,090)
Transferred to investment properties (Note 16)	(14,997)	–	–	–	–	–	–	(14,997)
At 31 December 2017	3,451,346	326,622	3,074,926	220,939	50,157	420,721	14,339	7,559,050
ACCUMULATED DEPRECIATION AND IMPAIRMENT								
At 1 January 2017	666,314	64,113	1,490,027	138,903	34,435	23,139	8,093	2,425,024
Exchange differences	44,895	–	107,186	7,644	2,126	1,633	492	163,976
Charge for the year	112,636	297	140,528	21,959	4,684	–	1,447	281,551
Impairment loss recognised (Note 6)	21,029	–	–	–	–	–	–	21,029
Disposals/written off	(2,810)	–	(13,122)	(8,552)	(6,114)	–	(468)	(31,066)
Disposal of subsidiaries (Note 51(b))	(27,227)	–	–	–	–	–	–	(27,227)
Transferred to investment properties (Note 16)	(3,789)	–	–	–	–	–	–	(3,789)
At 31 December 2017	811,048	64,410	1,724,619	159,954	35,131	24,772	9,564	2,829,498
CARRYING VALUE								
At 31 December 2017	2,640,298	262,212	1,350,307	60,985	15,026	395,949	4,775	4,729,552

14. PROPERTY, PLANT AND EQUIPMENT (Continued)

notes:

(a) The leasehold land of the Group is situated in Hong Kong.

(b) Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

Buildings	10—40 years
Leasehold land	Over the lease term
Plant and machinery	3—25 years
Leasehold improvements, furniture and equipment	3—10 years
Motor vehicles	5—12 years
Others	5—10 years

(c) Buildings with a carrying amount of approximately HK$369 million (2017: HK$451 million) have been pledged to secure banking borrowings.

15. LAND USE RIGHTS

The Group's interests in land use rights represent prepaid operating lease payments related to leases of between 10 to 50 years in the PRC.

As at 31 December 2018, land use rights with a carrying amount of approximately HK$68 million (2017: HK$150 million) have been pledged to secure banking borrowings granted to the Group.

As at 31 December 2017, land ownership certificates have not been obtained for leasehold land located in Tianjin with a carrying value of HK$35,834,000. In the opinion of the directors of the Company, the absence of formal title to these land interests does not impair their carrying value and the probability of being evicted on the ground of an absence of formal title is remote. These leasehold land had been disposed of during the current year through disposal of subsidiaries as detailed in Note 51(a).

During the year ended 31 December 2018, the Group acquired land use rights with a carrying value of HK$16,825,000 (2017: HK$102,543,000) and disposed of land use rights with a carrying value of HK$100,050,000 (2017: HK$41,178,000) upon disposal of subsidiaries. Further details are set out in Note 51.

As at 31 December 2018, land use rights with a carrying value of HK$12,757,000 were classified as held-for-sale. Further details are set out in Note 8.

During the year ended 31 December 2017, the Group received one-off and unconditional government grants of RMB17,000,000 (equivalent to HK$19,630,000) (2018: Nil) from the local government authority, which are recognised as a deduction from the cost of the relevant land use rights.

16. INVESTMENT PROPERTIES

	HK$'000
FAIR VALUE	
At 1 January 2017	155,515
Transfer from property, plant and equipment (Note 14)	11,208
Exchange differences	10,975
At 31 December 2017	177,698
Disposal of subsidiaries (Note 51(a))	(5,767)
Increase in fair value recognised in profit or loss (Note 6)	28,453
Exchange differences	(9,489)
At 31 December 2018	**190,895**

There was no unrealised gain on property revaluation included in profit or loss during the year ended 31 December 2017.

notes:

(a) The investment properties represent land and buildings in the PRC.

(b) All of the Group's property interests held under operating lease to earn rentals and/or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

(c) During the year ended 31 December 2017, certain properties in Tianjin with an aggregate fair value amount of HK$11,208,000 (2018: Nil) were transferred from property, plant and equipment to investment properties due to change in management intention for generating rental income and/or for capital appreciation and the commencement of the related leasing arrangements. There was no material difference between the carrying amount and the fair value of such properties as at the date of transfer.

(d) The fair values as at 31 December 2018 and 2017 have been arrived at based on a valuation carried out by Vigers Appraisal and Consulting Limited ("Vigers"), an independent valuer not connected with the Group. The valuation was determined either on the basis of capitalisation of net rental income derived from existing tenancies or by reference to comparable market transactions. There has been no change from the valuation technique used in the prior year.

(e) In estimating the fair value of the properties, the highest and best use of the properties is their current use.

16. INVESTMENT PROPERTIES (Continued)

notes: (Continued)

(f) Following are the key inputs used in valuing the investment properties:

Description	Fair value hierarchy	Fair value at 31 December 2018 HK$'000	2017 HK$'000	Valuation techniques	Key unobservable inputs	Range	Relationship of unobservable input to fair value
Property 1 in Tianjin	Level 3	**114,955**	106,681	Income method — Direct capitalisation approach	Capitalisation rate; annual unit rent in RMB and selling price per square meter in RMB	4.3%—5.3%; 367.9 and 9,050 (2017: 4.3%—5.3%; 340.6—367.9; and 9,000)	The higher the capitalisation rate, the lower the fair value; the higher the annual unit rent, the higher the fair value; and the higher the selling price per square meter, the higher the fair value
Property 2 in Tianjin	Level 3	**71,347**	59,809	Market comparable approach	Selling price per square meter in RMB	5,957—7,454 (2017: 5,901—7,143)	The higher the selling price per square meter, the higher the fair value
Property 3 in Tianjin	Level 3	**N/A**	6,347	Income method — Direct capitalisation approach	Capitalisation rate; annual unit rent in RMB and selling price per square meter in RMB	2018: N/A (2017: 8.5%—9%; 620.5—646.1; and 3,000)	The higher the capitalisation rate, the lower the fair value; the higher the annual unit rent, the higher the fair value; and the higher the selling price per square meter, the higher the fair value
Property 4 in Tianjin	Level 3	**4,593**	4,861	Income method — Direct capitalisation approach	Capitalisation rate; annual unit rent in RMB and selling price per square meter in RMB	4%—4.5%; 440.6—532.9; and 5,000 (2017: 4%—4.5%; 440.6—532.9; and 5,000)	The higher the capitalisation rate, the lower the fair value; the higher the annual unit rent, the higher the fair value; and the higher the selling price per square meter, the higher the fair value
		190,895	177,698				

There were no transfers into or out of Level 3 in both years.

17. INTERESTS IN ASSOCIATES

	2018 HK$'000	2017 HK$'000
The Group's interests in associates		
— Listed shares in Hong Kong		
— Tianjin Port	**3,386,239**	3,791,018
— Unlisted shares in the PRC		
— Otis China	**760,006**	854,587
— Research Institute (as defined in Note 52)	**855,215**	—
— Others	**323,036**	367,935
	5,324,496	5,013,540
Market value of listed shares		
— Tianjin Port	**1,073,339**	1,487,157

17. INTERESTS IN ASSOCIATES (Continued)

Interests in associates as at 31 December 2018 included goodwill of HK$820,729,000, net of impairment losses of HK$300,000,000 (2017: HK$1,120,729,000, net of nil impairment losses) arising from acquisition of Tianjin Port. Share of associates' taxation for the year ended 31 December 2018 of HK$123,952,000 (2017: HK$190,218,000) is included in the consolidated statement of profit or loss as share of profit of associates. Particulars regarding impairment testing on interest in an associate are disclosed in Note 22(b).

Details of principal associates which in the directors' opinion materially affect the results and/or net assets of the Group at 31 December 2018 are set out in Note 52.

Summarised financial information of material associates

Summarised financial information in respect of each of the Group's material associates is set out below. The summarised financial information of associates are prepared in accordance with HKFRSs.

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

	Tianjin Port		**Otis China**		**Research Institute**
	At 31 December 2018 HK$'000	At 31 December 2017 HK$'000	**At 31 December 2018 HK$'000**	At 31 December 2017 HK$'000	**At 31 December 2018 HK$'000**
Current assets	**14,621,995**	14,213,586	**10,376,866**	11,018,511	**1,687,293**
Non-current assets	**30,849,007**	33,233,838	**2,116,597**	2,388,482	**1,756,950**
Current liabilities	**(10,285,345)**	(11,153,448)	**(8,547,868)**	(8,930,000)	**(707,662)**
Non-current liabilities	**(9,296,225)**	(9,331,139)	**(22,887)**	(24,641)	**(201,861)**

	Tianjin Port		**Otis China**		**Research Institute**
	Year ended 31 December 2018 HK$'000	Year ended 31 December 2017 HK$'000	**Year ended 31 December 2018 HK$'000**	Year ended 31 December 2017 HK$'000	**For the period from 1 November 2018 to 31 December 2018 HK$'000**
Revenue	**15,871,075**	16,621,811	**19,152,458**	17,839,090	**248,372**
Profit (loss) for the year, attributable to owners of the associate	**430,145**	774,592	**1,209,844**	1,333,695	**(21,795)**
Other comprehensive (expense) income for the year, attributable to owners of the associate	**(619,382)**	904,150	**(184,579)**	287,804	**33,306**
Total comprehensive (expense) income for the year, attributable to owners of the associate	**(189,237)**	1,678,742	**1,025,265**	1,621,499	**11,511**
Dividends received from the associate during the year	**65,039**	44,480	**299,634**	304,539	**–**

17. INTERESTS IN ASSOCIATES (Continued)

Summarised financial information of material associates (Continued)

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

	Tianjin Port		Otis China		Research Institute
	At 31 December 2018 HK$'000	At 31 December 2017 HK$'000	**At 31 December 2018 HK$'000**	At 31 December 2017 HK$'000	**At 31 December 2018 HK$'000**
Equity attributable to owners of the associate	**12,224,271**	12,725,138	**3,795,091**	4,258,355	**2,443,473**
Proportion of the Group's ownership interest in the associate	**2,567,097**	2,672,279	**759,018**	851,671	**855,215**
Goodwill	**820,729**	1,120,729	**–**	–	**–**
Other adjustments	**(1,587)**	(1,990)	**988**	2,916	**–**
Carrying amount of the Group's interest in the associate	**3,386,239**	3,791,018	**760,006**	854,587	**855,215**

Aggregate information of associates that are not individually material

	Year ended 31 December 2018 HK$'000	Year ended 31 December 2017 HK$'000
The Group's share of profit	**3,183**	3,697
The Group's share of other comprehensive (expense) income	**(20,191)**	25,978
The Group's share of total comprehensive (expense) income	**(17,008)**	29,675
Aggregate carrying amount of the Group's interests in these associates	**323,036**	367,935
Dividends received from an associate	**1,000**	–

18. INTERESTS IN JOINT VENTURES

The Group's attributable interests in its joint ventures are unlisted. Details of the principal joint ventures, which in the directors' opinion, materially affect the results and/or net assets of the Group at 31 December 2018 are set out in Note 53.

Summarised financial information of a material joint venture

Summarised financial information in respect of a material joint venture of the Group, Wunushan Icewine (as defined in Note 53), is set out below. The summarised financial information below represents amounts shown in the joint venture's financial statements prepared in accordance with HKFRSs.

This joint venture is accounted for using the equity method in these consolidated financial statements.

Wunushan Icewine

	At 31 December 2018 HK$'000	At 31 December 2017 HK$'000
Current assets	**2,091**	8,698
Non-current assets	**88,659**	98,771
Current liabilities	**(53,734)**	(57,888)
Non-current liabilities	**–**	–
The above amounts of assets and liabilities include the following:		
Cash and cash equivalents	**1,108**	4,471
Current financial liabilities (excluding trade and other payables and provisions)	**–**	–
Non-current financial liabilities (excluding trade and other payables and provisions)	**–**	–

18. INTERESTS IN JOINT VENTURES (Continued)

Summarised financial information of a material joint venture (Continued)

Wunushan Icewine (Continued)

	Year ended 31 December 2018 HK$'000	Year ended 31 December 2017 HK$'000
Revenue	**–**	–
Loss for the year	**(10,691)**	(11,261)
The above loss for the year is arrived at after (charging) crediting:		
Depreciation and amortisation	**(5,813)**	(5,870)
Interest income	**30**	15
Interest expense	**–**	–
Tax expense	**–**	–

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

	At 31 December 2018 HK$'000	At 31 December 2017 HK$'000
Net assets of Wunushan Icewine	**37,016**	49,581
Proportion of the Group's ownership interest in Wunushan Icewine and carrying amount of the Group's interest therein	**20,729**	27,765

18. INTERESTS IN JOINT VENTURES (Continued)

Aggregate information of joint ventures that are not individually material

	Year ended 31 December 2018 HK$'000	Year ended 31 December 2017 HK$'000
The Group's share of post-tax loss	**(2,995)**	(1,733)
The Group's share of other comprehensive (expense) income	**(389)**	776
The Group's share of total comprehensive expense	**(3,384)**	(957)

The Group has discontinued recognition of its share of losses of a joint venture. The amounts of cumulative unrecognised share of losses for both years are as follows:

	Year ended 31 December 2018 HK$'000	Year ended 31 December 2017 HK$'000
The unrecognised owner's share of loss of a joint venture for the year	**(20,745)**	(60,588)
Cumulative unrecognised owner's share of losses of a joint venture	**(276,654)**	(255,909)

19. INTANGIBLE ASSETS

	Development costs HK$'000 (note i)	Patents HK$'000 (note ii)	Technical know-how HK$'000 (note iii)	Total HK$'000
COST				
At 1 January 2017	32,416	231,332	12,291	276,039
Additions	–	60,517	–	60,517
Exchange differences	2,288	18,498	867	21,653
At 31 December 2017	**34,704**	**310,347**	**13,158**	**358,209**
Disposal of subsidiaries (Note 51(a))	**–**	**(64,560)**	**–**	**(64,560)**
Exchange differences	**(1,584)**	**(14,520)**	**(601)**	**(16,705)**
At 31 December 2018	**33,120**	**231,267**	**12,557**	**276,944**
AMORTISATION AND IMPAIRMENT				
At 1 January 2017	22,578	169,562	–	192,140
Exchange differences	1,958	14,159	–	16,117
Charge for the year	10,168	3,148	–	13,316
Impairment loss recognised in the year (note iv)	–	57,919	–	57,919
At 31 December 2017	**34,704**	**244,788**	**–**	**279,492**
Exchange differences	**(1,584)**	**(11,291)**	**–**	**(12,875)**
Charge for the year	**–**	**259**	**–**	**259**
Disposal of subsidiaries (Note 51(a))	**–**	**(7,786)**	**–**	**(7,786)**
At 31 December 2018	**33,120**	**225,970**	**–**	**259,090**
CARRYING VALUE				
At 31 December 2018	**–**	**5,297**	**12,557**	**17,854**
At 31 December 2017	–	65,559	13,158	78,717

notes:

(i) Development costs represented costs incurred by the Group for the design and development of new production systems under the electrical and mechanical segment.

(ii) Patents were acquired by the Group through the acquisitions of subsidiaries in prior years. During the year ended 31 December 2017, patents of HK$60,517,000 were received by the Group in the form of return of capital from an associate.

(iii) Technical know-how was acquired separately and would be amortised over their expected useful lives from its commencement of generation of future economic benefit.

(iv) Particulars regarding impairment testing on intangible assets are disclosed in Note 22(a).

The following useful lives are used in the calculation of amortisation from the date at which the asset is ready for use:

Development costs	3 years
Patents	10 to 11 years

20. AVAILABLE-FOR-SALE FINANCIAL ASSETS/EQUITY INSTRUMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	notes	2018 HK$'000	2017 HK$'000
Equity securities			
Listed, at market value	(i)	**85,098**	107,823
Unlisted	(ii)	**2,029,492**	307,823
		2,114,590	415,646
Classified as:			
Equity instrument at fair value through other comprehensive income		**2,114,590**	—
Available-for-sale financial assets		**—**	415,646
		2,114,590	415,646

	Available-for-sale financial assets HK$'000	Equity instruments at fair value through other comprehensive income HK$'000	Total HK$'000
At 1 January 2017	413,223	—	413,223
Exchange differences	21,940	—	21,940
Change in fair value	(19,517)	—	(19,517)
At 31 December 2017	415,646	—	415,646
Effect arising from initial application of HKFRS 9 (Note 2)	(415,646)	2,654,874	2,239,228
At 1 January 2018	**—**	**2,654,874**	**2,654,874**
Addition	**—**	**9,817**	**9,817**
Disposal of subsidiaries (Note 51(a))	**—**	**(93,864)**	**(93,864)**
Exchange differences	**—**	**(106,775)**	**(106,775)**
Change in fair value	**—**	**(349,462)**	**(349,462)**
At 31 December 2018	**—**	**2,114,590**	**2,114,590**

notes:

(i) The listed securities mainly represent the Group's 4.69% equity interest in Binhai Investment Company Limited ("Binhai Investment") which is listed on the Main Board of the Stock Exchange.

As at 31 December 2018, the market value of the Group's equity interest in Binhai Investment was HK$68,863,000 (2017: HK$85,841,000) and the unrealised fair value loss of HK$26,794,000 (2017: HK$13,397,000) was recognised as other comprehensive expense.

(ii) The unlisted available-for-sale financial assets are principally equity investments in certain entities established and operated in the PRC. They are mainly denominated in Renminbi. At the date of initial application of HKFRS 9, the unlisted equity instruments previously measured at cost less impairment under HKAS 39 are now measured at fair value.

21. GOODWILL

	HK$'000
COST	
At 1 January 2017	143,906
Exchange differences	10,155
At 31 December 2017	**154,061**
Exchange differences	**(7,035)**
At 31 December 2018	**147,026**
IMPAIRMENT	
At 1 January 2017	142,509
Exchange differences	10,057
At 31 December 2017	**152,566**
Exchange differences	**(6,967)**
At 31 December 2018	**145,599**
CARRYING VALUE	
At 31 December 2018	**1,427**
At 31 December 2017	1,495

Particulars regarding impairment testing on goodwill are disclosed in Note 22(a).

22. IMPAIRMENT TESTING ON GOODWILL, INTANGIBLE ASSETS, PROPERTY, PLANT AND EQUIPMENT AND INTEREST IN AN ASSOCIATE

(a) For the purposes of impairment testing, non-currents assets including property, plant and equipment, patents and goodwill set out in Notes 14, 19 and 21, respectively, have been allocated to the respective CGU, being the electrical and mechanical segment (as set out in Note 4). The carrying amounts of property, plant and equipment, patents and goodwill, after impairment, allocated to the respective CGU are as follows:

	2018 **HK$'000**	2017 HK$'000
Electrical and mechanical segment		
Property, plant and equipment	**836,946**	987,685
Goodwill	**1,427**	1,495
Other non-current assets (excluding deferred tax assets)	**172,765**	185,225

The Group tests goodwill annually for impairment, or more frequently if there are indications that they might have been impaired.

22. IMPAIRMENT TESTING ON GOODWILL, INTANGIBLE ASSETS, PROPERTY, PLANT AND EQUIPMENT AND INTEREST IN AN ASSOCIATE (Continued)

(a) (Continued)

The basis of the recoverable amount of the respective CGU and their major underlying assumptions are summarised below:

As at 31 December 2018, the recoverable amount of the respective CGU which is the higher of value in use and fair value less costs of disposal, was determined from value in use calculation. The calculation uses cash flow projections based on the most recent financial budgets provided by the management for the coming five years and discount rate of 10% (2017: 10%). The cash flows beyond the budget years are extrapolated using a steady 3% (2017: 3%) growth rate. Another key assumption for the value in use calculation relates to the estimation of cash inflows which include budgeted sales and gross margins, such estimation is based on the respective CGU's past performance and the management's expectations of the market development.

During the year ended 31 December 2018, the management of the Group recognised an impairment loss on plant and machinery of HK$40,506,000 (2017: impairment loss on patents of HK$57,919,000) based on such assessment.

(b) The Group tests the impairment for interests in associates if there are indications that they might have been impaired. Due to the fact that the carrying value of the Group's interest in a listed associate — Tianjin Port exceeded its market value of HK$1,073 million at the end of the reporting period, the management of the Group has performed an impairment testing with the basis of the recoverable amount and major underlying assumptions summarised below.

As at 31 December 2018, the recoverable amount of the interest in Tianjin Port which is the higher of value in use and fair value less costs of disposal, was determined from value in use calculation. The calculation uses discounted cash flows which require the estimation of key assumptions and inputs including discount rates, growth rates and expected dividend income. The cash flows of the expected dividend income are extrapolated using a steady 4.5% growth rate with a discount rate of 5.9% (2017: 5.1%). Such estimation is based on the historical actual dividend received and the management's expectations of the maintainable dividend income taking into consideration of both internal factors and external market environment.

During the year ended 31 December 2018, the management of the Group recognised an impairment loss on the interest in Tianjin Port of HK$300,000,000 (2017: Nil) based on such assessment.

23. INVENTORIES

	2018 **HK$'000**	2017 HK$'000
Raw materials	**237,379**	260,613
Work in progress	**531,766**	122,119
Finished goods	**140,157**	201,367
Consumable stocks	**1,040**	2,606
	910,342	586,705

24. AMOUNTS DUE FROM JOINT VENTURES/AN ASSOCIATE/ULTIMATE HOLDING COMPANY

The balances are unsecured, interest-free and have no fixed repayment term and are mainly denominated in Renminbi.

25. AMOUNTS DUE FROM (TO) RELATED COMPANIES

				Maximum amount outstanding during the year	
			At 1 January		
	2018	2017	2017	**2018**	2017
	HK$'000	HK$'000	HK$'000	**HK$'000**	HK$'000
Amounts due from related companies	**59,236**	48,038	47,740	**59,935**	57,614
Amounts due to related companies	**434,446**	824,228			

The balances are denominated in Renminbi and are unsecured, interest-free and have no fixed repayment term except for the amounts due to related companies of HK$22,831,000 (2017: HK$47,847,000) which carry fixed interest rate of 4.35% (2017: ranging from 4.35% to 4.44%) per annum and are due within one year. Details of the relationship with related companies are set out in Note 49(b).

26. CONTRACT ASSETS

	31 December 2018	1 January 2018*
	HK$'000	HK$'000
Machinery construction contracts	**379,799**	458,431

* This amount is after the adjustments from the application of HKFRS 9 and HKFRS 15.

The contract assets primarily relate to the Group's right to consideration for work completed and not billed because the rights are conditioned on the contract performance in the future. The contract assets are transferred to trade receivables when the rights become unconditional.

Relevant payment terms which impact on the amount of contract assets recognised are as follows:

Machinery construction contracts

The Group's machinery construction contracts include payment schedules which require stage payments over the construction period once certain specified milestones are reached. The Group requires certain customers to provide upfront deposits range from 5% to 10% of total contract sum as part of its credit risk management policies. The upfront deposits are transferred to the trade receivables when the rights become unconditional, which is typically at the time the Group achieves the contractual milestones.

The contracts typically also include a sum of retention of 5% to 10% of the contract value. This amount is included in contract assets until the end of the retention period as the Group's entitlement to this final payment is conditional upon the satisfaction of the quality by the customers over a certain period as stipulated in the contracts.

As at 31 December 2018, included in contract assets are retentions of HK$51,541,000 that are expected to be realised beyond twelve months from the end of the reporting period. The Group classifies these contract assets as current assets because the Group expects to realise them in its normal operating cycle.

27. AMOUNTS DUE FROM (TO) CUSTOMERS FOR CONTRACT WORK

	2017 HK$'000
Contracts in progress at the end of the reporting period:	
Contract costs incurred plus recognised profits less recognised losses	3,922,556
Less: Progress billings	(3,580,455)
	342,101
Analysed for reporting purposes as:	
Amounts due from contract customers included in current assets	572,533
Amounts due to contract customers included in current liabilities	(230,432)
	342,101

As at 31 December 2017, retentions of HK$88,676,000 held by customers for contract work were included in trade receivables.

As at 31 December 2017, advances of HK$74,233,000 received from customers for contracts entered into but not yet commenced were included in other payables.

Upon initial application of HKFRS 15, amounts due from customers for contract work and retentions held by customers were reclassified to contract assets, while amounts due to customers for contract work and advances received from customers were reclassified to contract liabilities.

28. TRADE RECEIVABLES/NOTES RECEIVABLES/OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	notes	2018 HK$'000	2017 HK$'000
Trade receivables			
Fully performing	(a)	–	577,277
Past due but not impaired	(b)	–	344,188
Impaired	(c)	–	140,645
Trade receivables — exposure at default	(a), (d)	**640,877**	–
Trade receivables — gross		**640,877**	1,062,110
Less: allowance for credit losses	(c), (d)	**(96,147)**	(140,645)
Trade receivables — net		**544,730**	921,465
Notes receivables	(g)	**361,169**	334,108
	(e), (h)	**905,899**	1,255,573
Other receivables, deposits and prepayments			
Entrusted loan	(f)	**34,247**	35,885
Profit Guarantee Arrangement	(i)	–	118,287
Others		**547,474**	436,826
		581,721	590,998

As at 31 December 2018 and 1 January 2018, trade receivables from contracts with customers amounted to HK$544,730,000 and HK$725,884,000 respectively.

notes:

(a) Various group companies have different credit policies which are dependent on the practice of the markets and the businesses in which they operate. In general, credit periods of (i) 30 days are granted to corporate customers of the Group's hotel business; (ii) 90 to 180 days are granted to customers in the electrical and mechanical segment; and (iii) 30 to 180 days are granted to customers in the pharmaceutical segment. No credit terms are granted to customers in the utilities segment. Receivables classified as fully performing are trade receivables that are neither past due nor impaired and with no history of default payment.

Annual government supplemental income receivables do not have credit terms and the amounts are finalised by the Finance Bureau of Tianjin Economic and Technological Development Area ("TEDA Finance Bureau") each financial year. Continuous settlements have been received by the Group over the years and except for an amount of HK$23,889,000 (2017: Nil), all government supplemental income had been received as at 31 December 2018.

28. TRADE RECEIVABLES/NOTES RECEIVABLES/OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS (Continued)

notes: (Continued)

(b) As at 31 December 2017, trade receivables that are past due but not impaired are related to a wide range of customers and the management believes that no impairment allowance is necessary as there has not been a significant change in the credit quality and the balances are still considered fully recoverable.

The ageing analysis of trade receivables which are past due but not impaired is as follows:

	2017 HK$'000
91 to 180 days	167
181 to 365 days	167,425
Over 1 year	176,596
	344,188

(c) As at 31 December 2017, trade receivables of HK$140,645,000 were credit impaired. The age and settlement track record of individual receivables were considered in the review for their impairment. The ageing of these receivables is as follows:

	2017 HK$'000
Within 30 days	713
31 to 90 days	—
91 to 180 days	—
Over 180 days	139,932
	140,645

Movements in the allowance for impairment of trade receivables are as follows:

	2017 HK$'000
At 1 January	124,903
Exchange differences	9,054
Impairment losses recognised	14,604
Impairment loses reversed	(7,916)
At 31 December	140,645

The creation and release of allowance for impaired receivables are included in impairment losses, net of reversal in the consolidated statement of profit or loss. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

28. TRADE RECEIVABLES NOTES RECEIVABLES/OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS (Continued)

notes: (Continued)

(d) As at 31 December 2018, included in the Group's trade receivables balance are debtors with aggregate carrying amount of HK$184,850,000 which are past due as at the reporting date. Out of the past due balances, HK$135,631,000 has been past due 90 days or more and is not considered by the management of the Group as in default by considering the subsequent and historical repayment from the debtors. The Group does not hold any collateral over these balances.

Details of impairment assessment of trade and other receivables for the year ended 31 December 2018 are set out in Note 47(b).

(e) The ageing analysis of the Group's trade and notes receivables (net of allowance) is as follows:

	2018 **HK$'000**	2017 HK$'000
Within 30 days	**329,280**	515,399
31 to 90 days	**167,731**	154,673
91 to 180 days	**213,645**	124,946
181 to 365 days	**101,687**	283,960
Over 1 year (note (h))	**93,556**	176,595
	905,899	1,255,573

(f) The amount represented an entrusted loan to one government-related corporate borrower in the PRC through one PRC financial institution and the outstanding amount is repayable within one year with a variable interest rate at RMB benchmark lending rate plus 1.2% per annum (2017: a fixed rate at 6% per annum).

(g) As at 31 December 2018, total notes receivables amounting to HK$361,169,000 (31 December 2017: HK$334,108,000) are held by the Group for future settlement of trade receivables. All notes receivables held by the Group are with a maturity period of less than one year.

(h) As at 31 December 2017, the amounts included retentions held by customers for contract works over one year of HK$75,012,000. As at 31 December 2018, such retention held by customers for contract work was reclassified to contract assets under HKFRS 15.

(i) In December 2015, the Group completed the acquisition of 67% equity interest in Thrive Leap Limited ("Thrive Leap", together with its subsidiaries, the "Thrive Leap Group") from a wholly owned subsidiary of Tsinlien, the ultimate holding company of the Company, for a cash consideration of RMB2,315,855,000 (equivalent to HK$2,772,483,000). Pursuant to the terms of the sale and purchase agreement for the acquisition of Thrive Leap, Tsinlien and Tianjin Pharmaceutical Group Co., Ltd., a state-owned enterprise established in the PRC and the owner of Tsinlien ("Tianjin Pharmaceutical") (collectively referred as the "Vendor's Guarantors") had agreed to provide a profit guarantee to the Group in relation to the audited consolidated net profit of the Thrive Leap Group attributable to owners for the year ended 31 December 2015 and the two years ended 31 December 2017. If the audited consolidated net profit of the Thrive Leap Group attributable to owners of Thrive Leap falls short of the guaranteed profit of RMB130,000,000 for the year ended 31 December 2015 and RMB313,000,000 in aggregate for the two years ended 31 December 2017, the Vendor's Guarantors would pay an amount equal to 67% of such shortfalls to the Group (the "Profit Guarantee Arrangement") for respective period.

As at 31 December 2017, based on the actual financial performance of the Thrive Leap Group for the two years ended 31 December 2017, the audited consolidated net profit of the Thrive Leap Group attributable to owners of Thrive Leap in aggregate was RMB170,848,000 which did not meet the guaranteed profit with a shortfall amounted to RMB142,152,000. Accordingly, the Vendor's Guarantors are obliged to compensate the Group an amount of HK$118,287,000, being 67% of the shortfall, to the Group. The amount has been received in full in the current year.

(j) The carrying amounts of trade and notes receivables, other receivables and deposits approximate their fair values and they are mainly denominated in Renminbi. The maximum exposure to credit risk at the end of the reporting period is the carrying value of the receivables mentioned above. Except for the concentration on a few receivables arising from the electrical and mechanical segment, the Group has no significant concentration of credit risk.

29. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018 HK$'000	2017 HK$'000
Investments held for trading:		
Listed shares in Hong Kong	**5,359**	5,359
Listed shares in the PRC	**6,356**	54,087
Listed funds in the PRC	**10,860**	893
Unlisted funds in the PRC	**14,028**	136,236
Unlisted trust funds in the PRC (note)	**426,583**	192,028
	463,186	388,603
Market values of listed shares	**11,715**	59,446
Market values of listed funds	**10,860**	893

The balances are denominated in Renminbi except for the listed shares in Hong Kong which are denominated in Hong Kong dollar.

The fair values of all listed shares and listed funds are based on their current bid prices in active markets. The fair values of unlisted funds and unlisted trust funds are determined on their net asset values quoted by the relevant investment trust or securities companies.

note: The above unlisted trust funds are measured at fair value on a recurring basis at the end of each reporting period. As at 31 December 2018, the fair value of the investments of HK$426,583,000 (2017: HK$192,028,000) is based on Level 2 measurement (inputs which are derived from other than quoted prices included within Level 1 that are observable for the asset or liability).

30. STRUCTURED DEPOSITS

As at 31 December 2018, the Group placed with one licensed commercial bank in the PRC for principal-protected RMB-denominated structured deposits with maturity within 1 months after the end of the reporting period. The expected annual interest rate for the structured deposits is indicated at 2.55% to 3.15%, however, the actual interest to be received is uncertain until maturity. Such structured deposits were accounted for as financial assets at fair value through profit or loss under HKFRS 9.

31. ENTRUSTED DEPOSITS

As at 31 December 2018, the entrusted deposits were placed with three financial institutions (2017: four financial institutions) in the PRC, with maturity from 3 to 17 months (2017: 4 to 29 months) after the end of the reporting period. The deposits carry the expected rates of return ranging from 6.3% to 8.5% (2017: 5.6% to 6.9%) per annum.

Contracts with maturity over one year confer the Group rights of early redemption at amortised cost, before the maturity date. Accordingly, those deposits were classified as current assets.

At the date of initial application of HKFRS 9, the entrusted deposits previously classified as loans and receivables and measured at amortised cost under HKAS 39 are now classified as financial assets at fair value through profit or loss and measured at fair value.

32. CASH AND CASH EQUIVALENTS/TIME DEPOSITS WITH MATURITY OVER THREE MONTHS/RESTRICTED BANK BALANCES

	2018 HK$'000	2017 HK$'000
Cash at banks and in hand	**2,976,084**	5,180,589
Time deposits with maturity less than three months	**924,234**	697,556
Balances with other financial institutions	**81,674**	20,406
Cash and cash equivalents	**3,981,992**	5,898,551
Time deposits with maturity over three months	**1,888,560**	1,403,018
Restricted bank balances (note)	**231,063**	94,496
	6,101,615	7,396,065

note: The restricted bank balances are pledged against the notes payables and short-term bank borrowings.

The carrying amounts of cash and cash equivalents, time deposits with maturity over three months and restricted bank balances approximate their fair values and they are mainly denominated in Renminbi.

33. SHARE CAPITAL

	Number of shares Thousand	Value HK$'000
Issued and fully paid ordinary shares with no par value:		
At 1 January 2017, 31 December 2017 and 2018	**1,072,770**	**5,136,285**

34. SHARE OPTION SCHEME

The Company adopted an equity-settled share option scheme (the "Option Scheme") on 25 May 2007 under which the directors may, at their discretion and within 10 years from the approval date, offer to grant options to the participants pursuant to the criteria set out in the Option Scheme. The Company operates the Option Scheme for the purpose of providing the Company with a flexible means of giving incentive to, rewarding, remunerating, compensating and/or providing benefits to the participants. The total number of shares of the Company which may be issued upon exercise of all options to be granted under the Option Scheme and any other share option schemes of the Company shall not in aggregate exceed 10% of the total number of shares of the Company in issue as at the date of approval of the Option Scheme. The maximum number of shares of the Company which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Option Scheme and any other share option schemes of the Company must not exceed 30% of the total number of shares of the Company in issue from time to time. The subscription price shall be at least the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet (the "Daily Quotation") on the date of grant, which must be a business day; (ii) the average of the closing price of the shares as stated in the Daily Quotation for the five business days immediately preceding the date of grant; and (iii) HK$0.10 of a share. A cash consideration of HK$1 is payable by the grantee on acceptance of the offer of grant of any option. The life of the Option Scheme expired on 24 May 2017.

34. SHARE OPTION SCHEME (Continued)

During the year ended 31 December 2017, the Company passed an ordinary resolution to extend the exercise period of a total of 20,800,000 fully vested outstanding share options granted by the Company under the Option Scheme adopted on 25 May 2007, which expired on 24 May 2017, for two years from 24 May 2017 to 24 May 2019. As a result of the extension, the estimated fair value of HK$19,362,000 measured at the date of extension was expensed in full during the year ended 31 December 2017 and is disclosed in Note 10.

The estimated fair value related to the fully vested outstanding share options was calculated based on the Binomial model, the key inputs into which are as follows:

Weighted average share price	HK$4.56
Exercise price	Ranging from HK$3.56 to HK$6.07
Expected volatility	42%
Expected option life	Approximate 1.8 years
Risk-free rate	0.648%
Expected dividend yield	2.03%

The expected volatility was determined by using the historical volatility of the Company's share price. The Binomial model was used to estimate the fair value of the option. The variables and assumptions used in computing the fair value of the options are based on the directors' best estimate. The value of an option varies with different variables of certain subjective assumptions.

Details of share options granted by the Company are as follows:

			Number of share options								
Date of grant	**Exercisable period**	**Exercise price** HK$	Balance at 1 January 2017	Granted	Exercised	Lapsed/ cancelled	Balance at 31 December 2017	**Granted**	**Exercised**	**Lapsed/ cancelled**	**Balance at 31 December 2018**
19 December 2007	17 January 2008 to 24 May 2017	8.040	1,000,000	–	–	(1,000,000)	–	**–**	**–**	**–**	**–**
16 December 2009	16 December 2009 to 24 May 2019 (note)	5.750	3,000,000	–	–	–	3,000,000	**–**	**–**	**–**	**3,000,000**
3 December 2010	3 December 2010 to 24 May 2019 (note)	6.070	300,000	–	–	–	300,000	**–**	**–**	**–**	**300,000**
7 November 2011	11 November 2011 to 24 May 2019 (note)	3.560	4,500,000	–	–	–	4,500,000	**–**	**–**	**–**	**4,500,000**
19 December 2012	19 December 2012 to 24 May 2019 (note)	4.060	5,000,000	–	–	–	5,000,000	**–**	**–**	**–**	**5,000,000**
20 December 2013	20 December 2013 to 24 May 2019 (note)	5.532	8,000,000	–	–	–	8,000,000	**–**	**–**	**–**	**8,000,000**
			21,800,000	–	–	(1,000,000)	20,800,000	**–**	**–**	**–**	**20,800,000**
Exercisable at the end of the year							20,800,000				**20,800,000**

note: At the extraordinary general meeting of the Company held on 19 May 2017, shareholders of the Company passed an ordinary resolution to extend the exercise periods of all the outstanding share options granted by the Company on 16 December 2009, 3 December 2010, 7 November 2011, 19 December 2012 and 20 December 2013 under the Option Scheme for two years from 24 May 2017 to 24 May 2019.

Of the outstanding share options at 31 December 2018, 14,600,000 share options (2017: 14,600,000 share options) were granted to the directors of the Company. Details of the share options granted to directors are set out in section headed "Share Option Scheme" in the Report of the Directors.

35. RESERVES

	Capital reserve HK$'000	General reserve HK$'000 note (i)	Statutory reserves HK$'000 note (i)	Share-based payments reserve HK$'000	Other reserves HK$'000 note (ii)	Exchange reserve HK$'000	Available-for-sale financial assets revaluation reserve HK$'000 note (iii)	Fair value through other comprehensive income reserve HK$'000 note (v)	Retained earnings HK$'000 note (iv)	Total HK$'000
At 1 January 2017	9,010	101,327	702,323	29,983	(1,557,020)	212,870	93,322	–	5,176,074	4,767,889
Profit for the year	–	–	–	–	–	–	–	–	488,837	488,837
Other comprehensive (expense) income for the year	–	(5,500)	–	–	–	629,972	5,849	–	–	630,321
Dividends	–	–	–	–	–	–	–	–	(98,373)	(98,373)
Share-based payment expense (Note 34)	–	–	–	19,362	–	–	–	–	–	19,362
Transfer upon lapse of share options	–	–	–	(26,616)	–	–	–	–	26,616	–
Assets restructuring of an associate	–	–	–	–	25,374	–	–	–	–	25,374
Transfer between reserves	–	2,088	74,966	–	–	–	–	–	(77,054)	–
Others	–	6,760	–	–	–	–	–	–	–	6,760
At 31 December 2017	9,010	104,675	777,289	22,729	(1,531,646)	842,842	99,171	–	5,516,100	5,840,170
Adjustments (Note 2)	–	–	–	–	–	–	(99,171)	783,248	(113,058)	571,019
At 1 January 2018 (restated)	**9,010**	**104,675**	**777,289**	**22,729**	**(1,531,646)**	**842,842**	**–**	**783,248**	**5,403,042**	**6,411,189**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**471,931**	**471,931**
Other comprehensive expense for the year	**–**	**–**	**–**	**–**	**–**	**(490,601)**	**–**	**(130,392)**	**–**	**(620,993)**
Dividends	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(83,783)**	**(83,783)**
Disposal of subsidiaries (Note 51(a))	**–**	**17,847**	**–**	**–**	**–**	**(29,818)**	**–**	**(53,911)**	**65,882**	**–**
Transfer between reserves	**–**	**11,937**	**36,966**	**–**	**–**	**–**	**–**	**–**	**(48,903)**	**–**
Others	**–**	**1,056**	**1,314**	**–**	**–**	**–**	**–**	**–**	**–**	**2,370**
At 31 December 2018	**9,010**	**135,515**	**815,569**	**22,729**	**(1,531,646)**	**322,423**	**–**	**598,945**	**5,808,169**	**6,180,714**

notes:

(i) General and statutory reserves are reserves required by the relevant PRC laws applicable to the Group's subsidiaries established in the PRC and cannot be used for distribution in the form of cash dividends.

According to the articles of association of each of the Group's subsidiaries established in the PRC, a percentage, as stated in the articles of association or as approved by the board of directors of the subsidiaries, of net profit as reported in the PRC statutory accounts must be appropriated to reserve fund and enterprise expansion reserve, both of which are classified under statutory reserves. The percentage of appropriation is determined at the discretion of the board of directors of the respective subsidiaries. The reserve fund can be used to set off accumulated losses whilst the enterprise expansion reserve can be used for expansion of production facilities or increase in capital.

(ii) Other reserves mainly represented reserves arising from reorganisation in prior years and the merger reserve arising from acquisition of Thrive Leap in 2015, being the difference between the consideration for the acquisition and the amount of share capital of Thrive Leap. Other reserves of HK$25,374,000 represented reserves arising from assets restructuring of Tianjin Port.

(iii) The available-for-sale financial assets revaluation reserve represents cumulative gains arising on the revaluation of available-for-sale investments that have been recognised in other comprehensive income, net of amounts reclassified to profit or loss when those available-for-sale investments are disposed of or are determined to be impaired. The available-for-sale financial assets revaluation reserve in relation to the Group's equity interest in Binhai Investment was in surplus as at 31 December 2017.

(iv) Retained earnings arising from associates and accumulated losses arising from joint ventures amounted to HK$1,212,458,000 (2017: HK$1,242,648,000) and HK$93,484,000 (2017: HK$102,406,000) respectively.

(v) The fair value through other comprehensive income reserve represents cumulative gains and losses arising on the revaluation of equity instruments at fair value through other comprehensive income that have been recognised in other comprehensive income. The fair value through other comprehensive income reserve in relation to certain unlisted equity instrument held by Research Institute was transferred to retained earnings upon disposal of subsidiaries.

36. DEFINED BENEFIT OBLIGATIONS

The Group provided supplementary pension benefits to certain retired employees, which were accounted for as defined benefit plans. The most recent actuarial valuations of the present value of the defined benefit obligations were carried out at 31 December 2017. The present value of the defined benefit obligations, the related current service cost and past service cost, were measured using the projected unit credit method. Significant actuarial assumptions for the determination of the defined obligations were discount rate and mortality. Such defined benefit obligations were derecognised upon the disposal of subsidiaries as detailed in Note 51(a).

37. DEFERRED INCOME

As set out in Note 4, the Group's pharmaceutical segment derives revenue from manufacture and sale of pharmaceutical research and development services as well as design, manufacture and printing for pharmaceutical packaging in the PRC. In the ordinary course of such business, government subsidies will be received in advance from the local government for the purpose of supporting the research and development activities on certain new pharmaceutical products, and are presented as deferred income in the Group's consolidated statement of financial position.

The amount of deferred income would be recognised in the same period as the related research and development activities are carried out and expenses are incurred or will be deducted from the carrying amount of the depreciable assets when the relevant assets for research and development activities are acquired. Such deferred income were derecognised upon the disposal of subsidiaries as detailed in Note 51(a).

38. BANK BORROWINGS

	2018 **HK$'000**	2017 HK$'000
Non-current		
Bank borrowings		
— Secured	**–**	53,279
— Unsecured	**–**	1,803,337
	–	1,856,616
Current		
Bank borrowings		
— Unsecured	**1,921,446**	279,880
— Secured	**235,160**	211,999
	2,156,606	491,879
Total borrowings	**2,156,606**	2,348,495

38. BANK BORROWINGS (Continued)

notes:

(a) The maturity of bank borrowings is as follows:

	2018 HK$'000	2017 HK$'000
Bank borrowings:		
Within one year	**2,156,606**	491,879
In the second year	**–**	1,856,616
	2,156,606	2,348,495

(b) The carrying amounts of the borrowings are denominated in the following currencies:

	2018 HK$'000	2017 HK$'000
Bank borrowings:		
Renminbi	**360,731**	557,120
Hong Kong dollar	**1,795,875**	1,791,375
	2,156,606	2,348,495

(c) The range of annual interest rates is 3.43% to 6.00% (2017: 2.80% to 6.55%) and the effective interest rates of bank borrowings at the end of the reporting period are as follows:

	2018 %	2017 %
Bank borrowings:		
Renminbi	**4.97**	4.71
Hong Kong dollar	**3.43**	2.80

(d) The carrying amounts of all bank borrowings approximate their fair values.

(e) On 23 November 2016, the Company obtained a new term loan banking facility of HK$1,800,000,000 for a period of 36 months commencing from the date of utilisation. On 9 December 2016, the term loan was drawn down to repay the prior term loan.

Pursuant to the facility agreement, it will be an event of default, inter alia, if:

(i) The Tianjin Municipal Government ceases to maintain a majority shareholding ownership directly or indirectly in the Company of more than 50%; or

(ii) The Company ceases to be under the direct or indirect control of Tsinlien.

39. DEFERRED TAXATION

	2018 HK$'000	2017 HK$'000
Deferred tax assets	**44,785**	93,409
Deferred tax liabilities	**(301,663)**	(37,772)
Deferred tax (liabilities) assets, net	**(256,878)**	55,637

notes:

(a) Under the PRC EIT Law, withholding tax is imposed on dividends declared in respect of profits earned by the subsidiaries in the PRC from 1 January 2008 onwards. Deferred taxation has not been provided in the consolidated financial statements in respect of temporary differences attributable to accumulated profits of the PRC subsidiaries amounting to HK$1,415,879,000 (2017: HK$916,306,000) as the Group is able to control the timing of the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future.

(b) The following are the major deferred tax (liabilities) assets recognised and movements thereon during the current and prior years:

	Accelerated depreciation HK$'000	Revaluation of property HK$'000	Provisions for impairment HK$'000	Tax losses HK$'000	Fair value adjustments on business combination HK$'000	Fair value adjustment on equity instrument at fair value through other comprehensive income HK$'000	Others HK$'000	Total HK$'000
At 1 January 2017	(6,121)	(5,715)	35,008	62,535	(29,182)	(3,736)	(238)	52,551
Deferred tax credited (charged) to profit or loss	2,741	–	(177)	(4,293)	1,935	–	597	803
Deferred tax credited to other comprehensive income	–	–	–	–	–	1,530	–	1,530
Exchange differences	887	(403)	2,465	–	(1,990)	(209)	3	753
At 31 December 2017	(2,493)	(6,118)	37,296	58,242	(29,237)	(2,415)	362	55,637
Adjustments (Note 2)	–	–	–	–	–	(336,745)	–	(336,745)
At 1 January 2018 (restated)	**(2,493)**	**(6,118)**	**37,296**	**58,242**	**(29,237)**	**(339,160)**	**362**	**(281,108)**
Deferred tax (charged) credited to profit or loss	**(365)**	**(7,113)**	**451**	**(5,407)**	**1,986**	**–**	**–**	**(10,448)**
Deferred tax credited to other comprehensive income	**–**	**–**	**–**	**–**	**–**	**48,718**	**–**	**48,718**
Disposal of subsidiaries (Note 51(a))	**(5,081)**	**–**	**(2,230)**	**–**	**–**	**13,573**	**(3,298)**	**2,964**
Assets classified as held for sale (Note 8)	**(3,666)**	**–**	**(29,491)**	**–**	**–**	**–**	**2,995**	**(30,162)**
Exchange differences	**(724)**	**539**	**(1,749)**	**–**	**1,262**	**13,889**	**(59)**	**13,158**
At 31 December 2018	**(12,329)**	**(12,692)**	**4,277**	**52,835**	**(25,989)**	**(262,980)**	**–**	**(256,878)**

40. TRADE PAYABLES/NOTES PAYABLES

The ageing analysis of the Group's trade and notes payables, based on invoice date, is as follows:

	2018 **HK$'000**	2017 HK$'000
Within 30 days	**323,639**	423,581
31 to 90 days	**195,592**	190,381
91 to 180 days	**118,582**	203,238
Over 180 days	**447,674**	503,697
	1,085,487	1,320,897

The carrying amounts of trade and notes payables approximate their fair values and are mainly denominated in Renminbi.

41. OTHER PAYABLES AND ACCRUALS

	2018 **HK$'000**	2017 HK$'000
Receipts in advance (note)	**–**	1,003,256
Accruals	**642,466**	839,339
Other payables	**693,199**	933,104
	1,335,665	2,775,699

note: As at 1 January 2018, receipts in advance from customers of HK$1,003,256,000 previously included in other payables were reclassified to contract liabilities.

42. CONTRACT LIABILITIES

	31 December 2018 **HK$'000**	1 January 2018* HK$'000
Provision of utilities and other related supporting facilities	**681,663**	883,887
Machinery construction contracts	**446,061**	539,809
Sale of pharmaceutical products	**26,997**	45,136
	1,154,721	1,468,832

* The amounts in this column are after the adjustments from the application of HKFRS 15.

42. CONTRACT LIABILITIES (Continued)

The amounts recognised in the current year relates to carried-forward contract liabilities are as follows:

	Provision of utilities and other related supporting facilities HK$'000	Machinery construction contracts HK$'000	Sale of pharmaceutical products HK$'000
Amount recognised that was included in the contract liability balance at the beginning of the year	255,272	534,692	44,708

No revenue recognised in the current year was related to performance obligations that were satisfied in prior periods.

Provision of utilities and other related supporting facilities

The Group requests the customers an upfront payment before supply of heat and thermal power which will give rise to contract liabilities at the beginning of each heating period. The contract balances relate to instances where the utilities are prepaid and will be consumed over the heating period by the customers. The Group expects to realise them within three months from the end of the reporting period.

As at 31 December 2018, included in the contract liabilities are receipt in advance of HK$484,504,000 from provision of other related supporting facilities (1 January 2018: HK$645,805,000). The Group receives a lump sum payment before providing other related supporting facilities including maintenance of pipelines and network to residential customers. This would give rise to contract liabilities that would be amortised over their estimated useful life of 20 years.

Machinery construction contracts

When the Group receives a deposit before the production activity commences, this will give rise to contract liabilities at the start of a contract, until the revenue recognised on the relevant contract exceeds the amount of the deposit. The Group typically receives a 5% to 10% deposit on acceptance of manufacturing orders. The Group classifies these contract liabilities as current because the Group expects to realise them in its normal operating cycle.

Sale of pharmaceutical products

The Group requests certain customers an advance payment before the delivery of pharmaceutical products. The Group expects to realise them within one year from the end of the reporting period.

43. OPERATING LEASES

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

The Group as lessees

	2018 HK$'000	2017 HK$'000
Land and buildings		
Not later than one year	**8,825**	5,492
Later than one year and not later than five years	**4,932**	351
	13,757	5,843

At the end of the reporting period, the Group had contracted with tenants for the following future minimum lease payments:

The Group as lessors

	2018 HK$'000	2017 HK$'000
Investment properties		
Not later than one year	**5,301**	8,889
Later than one year and not later than five years	**21,205**	35,154
Over five years	**23,414**	30,090
	49,920	74,133

44. CAPITAL COMMITMENTS

	2018 HK$'000	2017 HK$'000
Contracted but not provided for in respect of		
— Additions to property, plant and equipment	**136,033**	385,132

45. PLEDGE OF ASSETS

At the end of the reporting period, restricted bank balances, land use rights and buildings of HK$231,063,000, HK$67,558,000 and HK$368,555,000 (2017: HK$94,496,000, HK$149,862,000 and HK$450,895,000), respectively, were pledged to financial institutions by the Group to secure general banking facilities.

46. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Reconciliation of profit before tax to net cash generated from operations:

	2018 HK$'000	2017 HK$'000
Profit before tax from continuing operations	**876,099**	533,269
Profit before tax from electricity business	**100,532**	121,004
	976,631	654,273
Adjustments for:		
Share of profit of associates	**(327,854)**	(433,100)
Share of loss of joint ventures	**8,982**	8,040
Finance costs	**86,227**	63,434
Interest income	**(199,746)**	(143,827)
Allowance for inventories	**—**	2,380
Depreciation	**296,970**	281,551
Amortisation	**8,967**	25,372
Share-based payment expense	**—**	19,362
Gain on disposal of subsidiaries (Note 51)	**(622,323)**	(11,392)
Impairment loss on intangible assets	**—**	57,919
Impairment loss on property, plant and equipment	**43,050**	21,029
Impairment loss on interests in associates	**308,711**	—
Impairment loss, net of reversal		
— Trade receivables	**(70,973)**	6,688
— Contract assets	**43,406**	—
— Other receivables	**(997)**	252
Net exchange loss (gain)	**43,049**	(82,412)
Dividend income from available-for-sale financial assets	**—**	(23,531)
Dividend income from equity instruments at fair value through other comprehensive income	**(17,836)**	—
Net gain on disposal/written off of property, plant and equipment	**(651)**	(8,150)
Unrealised loss (gain) on financial assets at fair value through profit or loss	**24,639**	(72,885)
Increase in fair value of investment properties	**(28,453)**	—
Operating cash flows before movements in working capital	**571,799**	365,003
Movements in working capital:		
Inventories	**(111,889)**	(74,479)
Trade receivables	**55,007**	(105,894)
Notes receivables	**(77,803)**	(33,415)
Other receivables, deposits and prepayments	**(49,833)**	13,130
Financial assets at fair value through profit or loss	**(120,467)**	248,772
Trade payables	**(195,392)**	84,472
Notes payables	**24,930**	(84,611)
Other payables and accruals	**105,778**	48,720
Defined benefit obligations	**(746)**	(1,481)
Deferred income	**(6,721)**	11,295
Amount due from ultimate holding company	**(37)**	(6)
Amounts due from/to related companies	**(379,397)**	(106,015)
Amounts due from/to customers for contract work	**—**	232,088
Contract assets	**16,481**	—
Contract liabilities	**(152,766)**	—
Cash (used in) generated from operations	**(321,056)**	597,579

47. FINANCIAL RISK MANAGEMENT

The categories of financial instruments of the Group are as follows:

	2018 HK$'000	2017 HK$'000
Financial assets		
Financial assets mandatorily required to be measured at fair value through profit or loss		
— Held-for-trading	**463,186**	388,603
— Others	**509,339**	—
	972,525	388,603
Financial assets at amortised cost	**7,754,876**	—
Equity instruments designated at fair value through other comprehensive income	**2,114,590**	—
Loans and receivables (including cash and cash equivalents)	**—**	9,889,009
Available-for-sale financial assets	**—**	415,646
Financial liabilities		
Amortised cost	**4,248,204**	5,293,445

Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, price risk and interest rate risk), credit and counterparty risk and liquidity risk. The Group's financial risk management focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance by actively managing debt level and cash flow in order to maintain a strong financial position and minimising refinancing and liquidity risks by attaining healthy debt repayment capacity, appropriate maturity profile and availability of banking facilities. The Group adheres to a policy of financial prudence and did not use any derivative financial instruments or structured financial products during the year.

(a) Market risk

(i) Foreign exchange risk

The actual foreign exchange risk faced by the Group is primarily with respect to bank balances and deposits, financial assets at fair value through profit or loss and borrowings made by the Group which are denominated in currencies (mainly Hong Kong dollar) other than the functional currency of the relevant group entities (collectively the "Non-Functional Currency Items").

The Group has foreign currency sales in its electrical and mechanical business segment, which have exposure to foreign exchange risk. Other than that, the principal subsidiaries of the Group operate in the PRC with almost all of their transactions settled in Renminbi and did not have significant exposure to foreign exchange risk during both years.

47. FINANCIAL RISK MANAGEMENT (Continued)

Financial risk factors (Continued)

(a) Market risk (Continued)

(i) Foreign exchange risk (Continued)

At 31 December 2018, with all other variables held constant, if Hong Kong dollar had weakened/strengthened against Renminbi by 5% (2017: 5%), the Group's profit for the year would have been favourably/unfavourably impacted by HK$64,244,000 (2017: HK$67,441,000) as a result of the translation of the Non-Functional Currency Items.

(ii) Price risk

The Group is exposed to equity securities price risk because the Group's investments in listed shares, listed funds, unlisted trust funds and unlisted funds are classified on the consolidated statement of financial position as available-for-sale financial assets/equity instruments at fair value through other comprehensive income and financial assets at fair value through profit or loss specified in Notes 20 and 29, respectively. The Group is not exposed to commodity price risk.

To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio and invests in relatively low-risk funds. If the prices of the respective equity securities had been 10% (2017: 10%) higher/lower, the Group's profit and other comprehensive income for the year would increase/decrease by HK$34,337,000 (2017: HK$28,676,000) and HK$6,968,000 (2017: HK$8,816,000), respectively.

(iii) Interest rate risk

Other than the entrusted loan, structured deposits, entrusted deposits and bank balances and deposits specified in Notes 28, 30, 31 and 32, respectively, the Group has no other significant assets bearing interest.

The Group is exposed to cash flow interest rate risk due to the fluctuation of the prevailing market interest rates on its bank balances and deposits.

As at 31 December 2018, the Group's unlisted bonds (2017: entrusted loan, unlisted bonds and entrusted deposits) carry fixed contractual interest rates and therefore expose the Group to fair value interest rate risk. Management believes that these fixed contractual rates instruments provide the Group with a steady income stream and are consistent with the Group's treasury management policy.

The Group's interest rate risk is mainly arising from bank borrowings (the "Interest Bearing Liabilities") set out in Note 38. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings at fixed rates expose the Group to fair value interest rate risk. The Group's policy is to maintain a balanced portfolio of borrowings subject to variable and fixed interest rates. The Group also analyses its interest rate exposure periodically by considering refinancing, renewal of existing positions and alternative financing. The Group's Interest Bearing Liabilities include borrowings of HK$1,807,291,000 at variable rates and HK$349,315,000 at fixed rates (2017: HK$1,887,993,000 at variable rates and HK$460,502,000 at fixed rates).

47. FINANCIAL RISK MANAGEMENT (Continued)

Financial risk factors (Continued)

(a) Market risk (Continued)

(iii) Interest rate risk (Continued)

If interest rates had been 50 basis points (2017: 50 basis points) higher/lower for Hong Kong dollar-denominated borrowings at variable rates and with all other variables held constant, the Group's profit for the year would decrease/increase by HK$7,498,000 (2017: HK$7,479,000); if interest rates had been 50 basis points (2017: 50 basis points) higher/lower for Renminbi-denominated borrowings at variable rates and with all other variables held constant, the Group's profit for the year would decrease/increase by HK$50,000 (2017: HK$396,000).

If interest rates had been 25 basis points (2017: 25 basis points) higher/lower for Hong Kong dollar-denominated bank balances and deposits and with all other variables held constant, the Group's profit for the year would increase/decrease by HK$590,000 (2017: HK$447,000); if interest rates had been 25 basis points (2017: 25 basis points) higher/lower for Renminbi-denominated bank balances and deposits and with all other variables held constant, the Group's profit for the year would increase/decrease by HK$13,250,000 (2017: HK$14,689,000).

The Group has not used any interest rate swaps to hedge its exposure to interest rate risk.

(b) Credit and counterparty risk and impairment assessment

As at 31 December 2018, the carrying amounts of the Group's financial assets and contract assets substantially represent the Group's maximum exposure to credit and counterparty risk. The Group does not hold any collateral or other credit enhancements to cover its credit risks associated with its financial assets and contract assets.

Trade receivables and contract assets arising from contracts with customers

In order to minimise the credit risk in relation to trade receivables and contract assets, the management has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. Before accepting any new customer, the Group uses an internal credit analysis to assess the potential customer's credit quality and defines credit limits by customer. In addition, the Group performs impairment assessment under expected credit loss model upon application of HKFRS 9 (2017: incurred loss model) on balances of trade receivables and contract assets collectively based on provision matrix.

Other receivables and amounts due from joint ventures/an associate/ultimate holding company/related companies

The Group assessed the expected credit losses for its other receivables and amounts due from joint ventures/an associate/ultimate holding company/related companies individually based on past due information which, in the opinion of the directors, have no significant increase in credit risk since initial recognition. Expected credit losses is estimated based on historical observed default rates over the expected life of receivables and is adjusted for forward-looking estimates.

47. FINANCIAL RISK MANAGEMENT (Continued)

Financial risk factors (Continued)

(b) Credit and counterparty risk and impairment assessment (Continued)

Other receivables and amounts due from joint ventures/an associate/ultimate holding company/related companies (Continued)

The Group reviews the recoverable amount of each individual receivable at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. No impairment losses was made for these balances as at 1 January 2018 and 31 December 2018 as the amounts involved were insignificant.

Notes receivables and bank balances

A significant portion of the Group's bank deposits and notes receivables are placed with or arranged through state-owned banks in the PRC. The credit risks on notes receivables and bank balances are limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies.

Structured deposits and entrusted deposits

The Group's structured deposits and entrusted deposits are placed with or arranged through state-owned banks/entities and other financial institutions in the PRC. The Group had a significant concentration of credit risk at 31 December 2018 because it had placed structured deposits and entrusted deposits of HK$52 million and HK$457 million, respectively (2017: Nil and HK$646 million, respectively) with one bank and three financial institutions, respectively (2017: Nil bank and four financial institutions, respectively) in the PRC.

No expected credit loss provision is considered for structured deposits and entrusted deposits as they are stated at fair value through profit or loss under HKFRS 9 as disclosed in Note 2.

The Group's internal credit risk grading assessment comprises the following categories:

Internal credit rating	Description	Trade receivables/ contract assets	Other financial assets
Low risk	The counterparty has a low risk of default and does not have any past-due amounts	Lifetime ECL — not credit impaired	12-month ECL
Watch list	Debtor frequently repays after due dates but usually settle after due date	Lifetime ECL — not credit impaired	12-month 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

47. FINANCIAL RISK MANAGEMENT (Continued)

Financial risk factors (Continued)

(b) Credit and counterparty risk and impairment assessment (Continued)

2018	Notes	External credit rating	Internal credit rating	12-month or lifetime expected credit losses	Gross carrying amount HK$'000
Financial assets at amortised cost					
Amount due from an associate	24	N/A	(note a)	12-month ECL	175,117
Amounts due from joint ventures	24	N/A	(note a)	12-month ECL	54,001
Amount due from ultimate holding company	24	N/A	(note a)	12-month ECL	284
Amounts due from related companies	25	N/A	(note a)	12-month ECL	59,236
Restricted bank balances	32	AA+	N/A	12-month ECL	231,063
Time deposits with maturity over three months	32	AA+	N/A	12-month ECL	1,888,560
Bank balances	32	AA+	N/A	12-month ECL	3,981,992
Notes receivables	28	AA	N/A	12-month ECL	361,169
Other receivables	28	N/A	(note a)	12-month ECL	458,724
Trade receivables	28	N/A	(note b)	Lifetime ECL (provision matrix)	545,119
				Credit impaired	95,758
Other item					
Contract assets	26	N/A	(note b)	Lifetime ECL (provision matrix)	385,220
				Credit impaired	62,167

notes:

(a) For the purposes of internal credit risk management, the Group uses past due information to assess whether credit risk has increased significantly since initial recognition. As at 31 December 2018, the balances are either not pass due or without fixed repayment terms.

(b) For trade receivables and contract assets, the Group has applied the simplified approach in HKFRS 9 to measure the loss allowance at lifetime expected credit losses. Except for credit impaired balances, the Group determines the expected credit losses on these items by using a provision matrix, grouped by past due status.

47. FINANCIAL RISK MANAGEMENT (Continued)

Financial risk factors (Continued)

(b) Credit and counterparty risk and impairment assessment (Continued)

As part of the Group's credit risk management, the Group uses provision matrix to calculate expected credit losses for trade receivables and contract assets collectively. The provision rates are based on the comparable default and recovery data from international credit-rating agencies and adjusted for forward-looking estimates. The following table provides information about the exposure to credit risk for trade receivables and contract assets which are assessed based on provision matrix as at 31 December 2018 within lifetime ECL (not credit impaired). Debtors with significant outstanding balances or credit impaired with gross carrying amount of nil and HK$306,104,000, respectively, as at 31 December 2018 were assessed individually.

Gross carrying amount

	At 31 December 2018		
	Average loss rate	**Trade receivables HK$'000**	**Contract assets HK$'000**
Operating segments			
Utilities — water, heat and thermal power	**1.31%–1.67%**	**99,492**	**–**
Pharmaceutical	**0.97%–1.76%**	**179,766**	**–**
Hotel	**1.46%**	**5,104**	**–**
Electrical and mechanical	**1.11%–4.47%**	**260,757**	**385,220**
		545,119	**385,220**

The grouping is regularly reviewed by management to ensure relevant information about specific debtors is updated.

47. FINANCIAL RISK MANAGEMENT (Continued)

Financial risk factors (Continued)

(b) Credit and counterparty risk and impairment assessment (Continued)

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 31 December 2017 under HKAS 39	—	140,645	140,645
Transfer	—	(8,869)	(8,869)
Adjustment upon application of HKFRS 9	105,375	—	105,375
As at 1 January 2018 (restated)	**105,375**	**131,776**	**237,151**
— Transfer	**(89,574)**	**89,574**	**—**
— Impairment losses reversed	**(3,755)**	**(67,218)**	**(70,973)**
— Classified as held for sale	**(141)**	**(40,187)**	**(40,328)**
— Disposal of subsidiaries	**(1,784)**	**(19,411)**	**(21,195)**
— Exchange adjustments	**(1,415)**	**(7,093)**	**(8,508)**
As at 31 December 2018	**8,706**	**87,441**	**96,147**

The following table shows the movement in lifetime ECL that has been recognised for contract assets under the simplified approach.

	Lifetime ECL (not credit impaired) HK$'000	Lifetime ECL (credit impaired) HK$'000	Total HK$'000
As at 31 December 2017 under HKAS 39	—	—	—
Transfer	—	8,869	8,869
Adjustment upon application of HKFRS 9	18,133	—	18,133
As at 1 January 2018 (restated)	**18,133**	**8,869**	**27,002**
— Transfer	**(15,497)**	**15,497**	**—**
— Impairment losses recognised	**6,389**	**37,017**	**43,406**
— Exchange adjustments	**(496)**	**(2,324)**	**(2,820)**
As at 31 December 2018	**8,529**	**59,059**	**67,588**

47. FINANCIAL RISK MANAGEMENT (Continued)

Financial risk factors (Continued)

(b) Credit and counterparty risk and impairment assessment (Continued)

The Group writes off a trade receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g. when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or when the trade receivables are over two years past due, whichever occurs earlier.

The Group has policies in place to ensure that provision of services are made to customers with an appropriate credit history and the Group performs periodic credit evaluations of its customers. According to the Group's historical experience, the irrecoverable trade receivables do not exceed the recorded allowances and the directors are of the opinion that adequate provision for uncollectible trade receivables has been made in the consolidated financial statements.

For the Group's electrical and mechanical business which involves a long production cycle, there are policies in place to ensure the production process is consistent with the contracted schedule. The provisions of services are made to customers with appropriate credit history and periodic credit evaluations of customers are performed. The aggregate amount of the relevant trade receivables and contract assets of electrical and mechanical business that are subject to credit risk is HK$258,871,000 and HK$379,799,000, respectively (2017: HK$502,612,000 and Nil, respectively) as at 31 December 2018. The directors are of the opinion that adequate provision for uncollectible trade receivables has been made in the consolidated financial statements.

As at 31 December 2018, 61% (2017: 75%) of the Group's financial assets were bank deposits, structured deposits and entrusted deposits, which were placed with state-owned banks and other financial institutions in the PRC. For utilities business, except for an amount of HK$24 million (2017: Nil), all government supplemental income from the TEDA Finance Bureau had been received as at 31 December 2018 and 2017, respectively. The residential, commercial and industrial customers in utilities segment demonstrated good credit quality in general as residential customers settled in cash while there are established relationships with key commercial and industrial customers with long business track record. For trade receivables arising from Tianfa Equipment (as defined in Note 50), a subsidiary in the electrical and mechanical segment, around 24% (2017: 21%) were receivable from a top 5 customers. In view that the management of this electrical and mechanical business has established relationships with a wide base of customers, the directors consider that the concentration risk is not significant.

47. FINANCIAL RISK MANAGEMENT (Continued)

Financial risk factors (Continued)

(c) Liquidity risk

The Group adopts prudent liquidity risk management which includes maintaining sufficient bank balances and cash and having funding through an adequate amount of committed credit facilities. The Group aims to maintain flexibility in funding by keeping committed credit lines available.

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

As at 31 December 2018, the Group had cash and cash equivalents of approximately HK$3,982 million (2017: HK$5,899 million), and bank borrowings of approximately HK$2,157 million (2017: HK$2,348 million), respectively.

The table below analyses the Group's financial liabilities that will be settled into relevant time bands based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows which include principal and interest. To the extent that interest flows are floating rate, the undiscounted amount is derived from interest rate at the end of the reporting period.

	On demand or less than 1 year HK$'000	Between 1 and 2 years HK$'000	Between 3 and 5 years HK$'000	Total HK$'000
At 31 December 2018				
Bank borrowings	**2,224,937**	**—**	**—**	**2,224,937**
Amounts due to related companies	**434,446**	**—**	**—**	**434,446**
Trade payables, notes payables and other payables	**1,657,152**	**—**	**—**	**1,657,152**
	4,316,535	**—**	**—**	**4,316,535**
At 31 December 2017				
Bank borrowings	553,216	1,910,003	—	2,463,219
Amounts due to related companies	824,228	—	—	824,228
Trade payables, notes payables and other payables	2,120,722	—	—	2,120,722
	3,498,166	1,910,003	—	5,408,169

47. FINANCIAL RISK MANAGEMENT (Continued)

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for stakeholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. Total capital is calculated as equity attributable to the owners of the Company as shown in the consolidated statement of financial position.

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

The Group monitors capital on the basis of the net gearing ratio. Net gearing ratio is calculated as net debt divided by equity attributable to the owners of the Company. Net debt is calculated as bank borrowings (including current and non-current portions as shown in the consolidated statement of financial position) less total cash and bank deposits. During the current year, the Group's policy, which was unchanged from prior year, was to maintain a net gearing ratio of not more than 40%.

At the end of the reporting period, the Group had a net cash position.

	2018 **HK$'000**	2017 HK$'000
Total cash and bank deposits	**6,101,615**	7,396,065
Less: bank borrowings	**(2,156,606)**	(2,348,495)
Net cash	**3,945,009**	5,047,570
Shareholders' funds	**11,316,999**	10,976,455
Net gearing position	**Net cash**	Net cash

Fair value measurements of financial instruments

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 (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 inputs are unobservable inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs).

47. FINANCIAL RISK MANAGEMENT (Continued)

Fair value measurements of financial instruments (Continued)

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent they are available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. Management of the Group works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to perform the valuation.

Fair value of the Group's financial assets that are measured at fair value on a recurring basis

Some of the Group's financial assets are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (Levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

Financial assets	Fair value as at 31 December 2018 HK$'000	Fair value as at 31 December 2017 HK$'000	Fair value hierarchy	Valuation technique(s) and key inputs	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
Available-for-sale financial assets/equity instruments at fair value through other comprehensive income						
– listed equity securities	**85,098**	107,823	Level 1	Quoted bid price in active markets	N/A	N/A
– unlisted equity securities – a private company in the PRC	**1,908,761**	N/A	Level 3	Dividend yield model which uses expected maintainable dividend income and market dividend yield	Dividend yield of 1.07% (note (i))	An increase in the dividend yield would result in a decrease in fair value, and vice versa
– other unlisted equity securities	**120,731**	N/A	Level 3	Market approach which uses enterprise multiples of comparable companies and a marketability discount	Marketability discount of 6.99%–10.24% (note (ii))	An increase in the marketability discount would result in a decrease in fair value, and vice versa
	2,114,590	107,823				

47. FINANCIAL RISK MANAGEMENT (Continued)

Fair value measurements of financial instruments (Continued)

Fair value of the Group's financial assets that are measured at fair value on a recurring basis (Continued)

Financial assets	Fair value as at 31 December 2018 HK$'000	31 December 2017 HK$'000	Fair value hierarchy	Valuation technique(s) and key inputs	Significant unobservable input(s)	Relationship of unobservable inputs to fair value
Financial assets at fair value through profit or loss						
— listed equity securities	**11,715**	59,446	Level 1	Quoted bid price in active markets	N/A	N/A
— listed funds	**10,860**	893	Level 1	Quoted bid price in active markets	N/A	N/A
— unlisted funds	**14,028**	136,236	Level 2	Redemption value quoted by the relevant investment trust with reference to the underlying assets (mainly listed securities) of the trust	N/A	N/A
— unlisted trust funds	**426,583**	192,028	Level 2	Redemption value quoted by banks or financial institutions with reference to the underlying assets (mainly listed securities and government bonds) of the trust fund	N/A	N/A
— structured deposits	**52,179**	N/A	Level 2	Redemption value quoted by banks with reference to the expected return of the underlying assets	N/A	N/A
— entrusted deposits	**457,160**	N/A	Level 2	Redemption value quoted by financial institutions with reference to the expected return of the underlying assets	N/A	N/A
	972,525	388,603				

notes:

(i) As at 31 December 2018, a 1% increase in the dividend yield holding all other variables constant would decrease the carrying amount of the unlisted equity securities by HK$19,117,000 and a 1% decrease in the dividend yield holding all other variables constant would increase the carrying amount of the unlisted equity securities by HK$19,503,000.

(ii) As at 31 December 2018, a 5% increase/decrease in the marketability discount holding all other variables constant would decrease/increase the carrying amount of the unlisted equity securities by HK$6,873,000.

47. FINANCIAL RISK MANAGEMENT (Continued)

Fair value measurements of financial instruments (Continued)

Reconciliation of Level 3 fair value measurements of financial assets

	Unlisted equity securities HK$'000	Profit guarantee HK$'000
At 1 January 2017	—	44,726
Fair value change recognised in profit or loss (Note 6)	—	73,561
Transfer to other receivables (Note 28)	—	(118,287)
At 31 December 2017	—	—
At 1 January 2018 (as restated)	**2,547,051**	**—**
Fair value change recognised in other comprehensive income (note)	**(317,744)**	**—**
Disposal of subsidiaries (Note 51(a))	**(93,864)**	**—**
Exchange differences	**(105,951)**	**—**
At 31 December 2018	**2,029,492**	**—**

note: All gains and losses included in other comprehensive income relate to equity instruments at fair value through other comprehensive income held at the end of the reporting period and are reported as changes of "fair value through other comprehensive income reserve".

There were no transfers among Levels 1, 2 and 3 in both years.

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a non-recurring basis

The directors of the Company consider that the carrying amounts of trade receivables, notes receivables, other receivables, structured deposits, entrusted deposits, restricted bank balances, time deposits with maturity over three months, cash and cash equivalents, trade payables, notes payables, other payables, short-term bank borrowings and balances with joint ventures, an associate, ultimate holding company and related companies that are recorded at amortised cost in the consolidated financial statements approximate their fair values due to the short-term maturities of these assets and liabilities.

The fair values of the financial assets and financial liabilities recorded at amortised cost have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis.

The fair values of long-term bank borrowings are estimated using the expected future contractual payments discounted at current market interest rates available to similar financial instruments and approximate their carrying amounts.

48. 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.

	Dividend payables HK$'000	Bank borrowings HK$'000	Total HK$'000
At 1 January 2018	**—**	**2,348,495**	**2,348,495**
Financing cash flows	**(148,682)**	**(44,476)**	**(193,158)**
Dividends declared	**148,682**	**—**	**148,682**
Disposal of subsidiaries (Note 51(a))	**—**	**(126,410)**	**(126,410)**
Foreign exchange translation	**—**	**(21,003)**	**(21,003)**
At 31 December 2018	**—**	**2,156,606**	**2,156,606**
At 1 January 2017	—	2,266,180	2,266,180
Financing cash flows	(134,385)	42,465	(91,920)
Dividends declared	134,385	—	134,385
Foreign exchange translation	—	39,850	39,850
At 31 December 2017	—	2,348,495	2,348,495

49. RELATED PARTY TRANSACTIONS

(a) Connected persons

On 14 March 2016, the Company entered into a master sales agreement (the "Master Sales Agreement") with Tianjin Pharmaceutical in relation to the sales of various chemical drug products and pharmaceutical printing and packaging products by the Group to the Tianjin Pharmaceutical and its subsidiaries (the "Tianjin Pharmaceutical Group") for a term commencing from 1 May 2016 and up to 31 December 2018. As Tianjin Pharmaceutical is an intermediate controlling shareholder of the Company and hence a connected person of the Company under the Listing Rules, therefore the entering into of the Master Sales Agreement and the transactions contemplated thereunder constituted continuing connected transactions of the Company under the Listing Rules.

For the year ended 31 December 2018, the total sales amount by the Group to the Tianjin Pharmaceutical Group under the Master Sales Agreement was RMB80,464,000 (equivalent to HK$95,337,000) (2017: RMB87,250,000 (equivalent to HK$100,751,000)).

49. RELATED PARTY TRANSACTIONS (Continued)

(a) Connected persons (Continued)

On 14 March 2016, the Company entered into a master R&D services agreement (the “Master R&D Services Agreement”) with Tianjin Pharmaceutical in relation to the provision of R&D services (the “Services”) by the Group to the Tianjin Pharmaceutical Group for a term commencing from 14 March 2016 and up to 31 December 2018.

For the year ended 31 December 2018, the total transaction amount in respect of the Services rendered by the Group to the Tianjin Pharmaceutical Group under the Master R&D Service Agreement was RMB300,000 (equivalent to HK$355,000) (2017: RMB15,814,000 (equivalent to HK$18,261,000)).

Details of the above transactions were disclosed in the Company’s announcements dated 14 March 2016 and the circular dated 7 April 2016, respectively.

(b) Related parties

The Group is controlled by Tsinlien, which owned 62.81% (2017: 62.80%) of the Company’s shares as at 31 December 2018. The remaining 37.19% (2017: 37.20%) of the Company’s shares are widely held.

Tsinlien is a state-owned enterprise and ultimately controlled by the Tianjin Municipal People’s Government of the PRC. In accordance with HKAS 24 “Related Party Disclosures”, entities directly or indirectly controlled, jointly controlled or significantly influenced by the PRC government are defined as related parties of the Group. On that basis, related parties include Tsinlien, its subsidiaries and associates, other state-owned enterprises and their subsidiaries directly or indirectly controlled by the PRC government, and other entities and corporations in which the Company is able to exercise joint control or significant influence, and key management personnel of the Company and Tsinlien as well as their close family members.

For the years ended 31 December 2018 and 2017, except for the government supplemental income granted by the TEDA Finance Bureau to the utilities business (Note 4), the Group’s significant transactions with other entities that are controlled, jointly controlled or significantly influenced by the PRC government (the “Other Government-Related Entities”) mainly include majority of its cash at banks and time deposits in banks and the corresponding interest income and part of sales and purchases of goods and services (such as purchase of utilities including electricity and water and sales of pharmaceutical products which constituted the majority of the Group’s purchases and sales). The price and other terms of such transactions are set out in the agreements governing these transactions or as mutually agreed, as appropriate.

49. RELATED PARTY TRANSACTIONS (Continued)

(b) Related parties (Continued)

Apart from the above-mentioned transactions with the Other Government-Related Entities, the connected transactions and the related party transactions and balances during the year ended 31 December 2018 set out in Notes 24 and 25, the following is a summary of the significant related party transactions carried out in the normal course of the Group's business:

(i) Transactions with related companies of the Group (note)

	2018 HK$'000	2017 HK$'000
Interest expense (Note 7)	4,545	2,175
Operating lease expenses for land	2,728	786
Operating lease expenses for plants, pipelines and networks	69,811	71,688
Provision of services	355	18,261
Purchase of goods	198	1,985
Purchase of materials	7,918	5,095
Purchase of steam for sale	856,789	827,314
Purchase of property, plant and equipment	—	2,065
Sales of goods	95,337	100,751

note: The related parties are entities controlled by Tianjin Pharmaceutical and entities controlled by non-controlling interests of the Company's non-wholly owned subsidiaries. Balances with related companies are set out in Note 25.

(ii) Key management compensation

	2018 HK$'000	2017 HK$'000
Fees	—	—
Salaries, share-based payment expense and other emoluments	5,965	25,088
Retirement benefits scheme contribution	54	304
	6,019	25,392

During the current year, the emoluments of certain executive directors and senior management were borne by Tianjin Tsinlien Investment Holdings Co., Ltd. (天津津聯投資控股有限公司).

50. PRINCIPAL SUBSIDIARIES

Details of the principal subsidiaries as at 31 December 2018 and 2017 are set out below:

			Percentage					
			2018			2017		
Name	**Principal activities**	**Registered capital/issued and paid up capital**	**Effective interest attributable to the Group %**	**Held by the Company %**	**Held by subsidiaries %**	Effective interest attributable to the Group %	Held by the Company %	Held by subsidiaries %
Established and operating in the PRC								
Tianjin Lisheng Pharmaceutical Co., Ltd. ("Lisheng") 天津力生製藥股份有限公司	Investment holding and manufacture and sale of chemical drugs	RMB182,454,992	**34.41**	**–**	**51.36**	34.41	–	51.36
Tianjin Yiyao Printing Co., Ltd. 天津宜藥印務有限公司	Investment holding and design, manufacture and printing for pharmaceutical packaging and sale of other paper-based packaging materials	RMB39,450,000	**43.55**	**–**	**65**	43.55	–	65
Tianjin Institute of Pharmaceutical Research Co., Ltd. 天津藥物研究院有限公司 (Note 51(a))	Investment holding and research and development of new medicine technology and new products	RMB38,991,486	**N/A**	**N/A**	**N/A**	67	–	100
Tianjin Heavenly Palace Winery Co., Ltd. 天津天宮葡萄釀酒有限公司	Investment holding	RMB80,018,400	**100**	**100**	**–**	100	100	–
Tianjin Tai Kang Investment Co., Ltd. ("Tianjin Tai Kang") 天津泰康投資有限公司	Investment holding	RMB1,030,269,383	**82.74**	**82.74**	**–**	82.74	82.74	–
Tianjin Development Assets Management Co., Ltd. 天津發展資產管理有限公司	Investment holding	RMB838,239,651	**100**	**100**	**–**	100	100	–
Tianjin TEDA Tsinlien Electric Power Co., Ltd. 天津泰達津聯電力有限公司 (Note 8)	Supply of electricity	RMB314,342,450	**94.36**	**–**	**94.36**	94.36	–	94.36
Tianjin TEDA Tsinlien Water Supply Co., Ltd. 天津泰達津聯自來水有限公司	Supply of water	RMB163,512,339	**91.41**	**–**	**91.41**	91.41	–	91.41
Tianjin TEDA Tsinlien Heat & Power Co., Ltd. 天津泰達津聯熱電有限公司	Supply of steam and thermal power	RMB262,948,258	**90.94**	**–**	**90.94**	90.94	–	90.94
Tianjin Tianduan Press Co., Ltd. 天津市天鍛壓力機有限公司	Manufacture and sale of presses and mechanical equipment	RMB50,776,070	**64.91**	**–**	**78.45**	64.91	–	78.45
Tianjin Tianfa Heavy Machinery & Hydro Power Equipment Manufacture Co., Ltd. ("Tianfa Equipment") 天津市天發重型水電設備製造有限公司	Manufacture and sale of hydroelectric equipment and large scale pump unit	RMB413,397,627	**82.74**	**–**	**100**	82.74	–	100
Incorporated in the Cayman Islands and operating in Hong Kong								
Thrive Leap	Investment holding	US$10,000	**67**	**–**	**67**	67	–	67
Incorporated in the British Virgin Islands and operating in Hong Kong								
Dynamic Infrastructure Limited	Investment holding	US$5	**100**	**100**	**–**	100	100	–
Leadport Holdings Limited	Investment holding	US$1	**100**	**100**	**–**	100	100	–
Incorporated and operating in Hong Kong								
Tsinlien Realty Limited 津聯置業有限公司	Operation of Courtyard by Marriott Hong Kong	HK$200,000	**100**	**–**	**100**	100	–	100
Godia Holdings Limited 富聰控股有限公司	Investment holding	HK$15	**100**	**–**	**100**	100	–	100

note: None of the subsidiaries had issued any debt securities at the end of the year or at any time during the year.

50. PRINCIPAL SUBSIDIARIES (Continued)

Composition of the Group

At the end of the reporting period, the Company has 30 (2017: 27) other subsidiaries that are not material to the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length. A majority of these subsidiaries operate in Hong Kong.

Details of non-wholly owned subsidiaries that have material non-controlling interests

The table below shows details of non-wholly owned subsidiaries of the Group that have material non-controlling interests:

Name of subsidiary	Place of establishment and principal place of business	Proportion of ownership interest and voting rights held by non-controlling interests		Profit (loss) allocated to non-controlling interests		Accumulated non-controlling interests	
		2018	2017	**2018**	2017	**2018**	2017
		%	%	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Tianjin Tai Kang	The PRC	**17.26**	17.26	**29,628**	(5,634)	**713,152**	801,484
Thrive Leap Group	Cayman Islands/Hong Kong	**33**	33	**361,192**	86,097	**3,961,060**	2,873,269
Other individual immaterial subsidiaries with non-controlling interests				**10,897**	9,191	**109,622**	95,982
				401,717	89,654	**4,783,834**	3,770,735

Summarised financial information in respect of Tianjin Tai Kang and Thrive Leap Group is set out below. The summarised financial information below represents amounts before intragroup eliminations.

Tianjin Tai Kang

	At 31 December 2018 HK$'000	At 31 December 2017 HK$'000
Current assets	**2,736,637**	2,917,034
Non-current assets	**2,092,721**	2,349,548
Current liabilities	**(1,901,619)**	(1,975,624)
Non-current liabilities	**(27,553)**	(29,239)
Equity attributable to owners of the Company	**2,187,034**	2,460,235
Non-controlling interests	**713,152**	801,484

50. PRINCIPAL SUBSIDIARIES (Continued)

Details of non-wholly owned subsidiaries that have material non-controlling interests (Continued)

Tianjin Tai Kang (Continued)

	Year ended 31 December 2018 HK$'000	Year ended 31 December 2017 HK$'000
Revenue	**1,244,890**	1,127,268
Share of profit of associates	**249,493**	273,208
Profit for the year	**124,060**	50,347
Other comprehensive (expense) income for the year	**(141,279)**	161,358
Total comprehensive (expense) income for the year	**(17,219)**	211,705
Profit (loss) for the year attributable to non-controlling interests	**29,628**	(5,634)
Total comprehensive (expense) income for the year attributable to non-controlling interests	**(5,385)**	22,216
Net cash outflow from operating activities	**(200,113)**	(21,396)
Net cash inflow from investing activities	**128,642**	446,537
Net cash outflow from financing activities	**(169,527)**	(65,280)
Net cash (outflow) inflow	**(240,998)**	359,861

Thrive Leap Group

	At 31 December 2018 HK$'000	At 31 December 2017 HK$'000
Current assets	**3,523,118**	3,368,605
Non-current assets	**4,474,044**	2,903,490
Current liabilities	**(997,636)**	(1,342,826)
Non-current liabilities	**(261,419)**	(229,132)
Equity attributable to owners of the Company	**2,777,047**	1,826,868
Non-controlling interests	**3,961,060**	2,873,269

50. PRINCIPAL SUBSIDIARIES (Continued)

Details of non-wholly owned subsidiaries that have material non-controlling interests (Continued)

Thrive Leap Group (Continued)

	Year ended 31 December 2018 HK$'000	Year ended 31 December 2017 HK$'000
Revenue	**2,574,809**	1,877,771
Share of loss of associates	**(9,739)**	(2,729)
Profit for the year	**851,532**	142,982
Other comprehensive (expense) income for the year	**(587,139)**	294,211
Total comprehensive income for the year	**264,393**	437,193
Profit for the year attributable to non-controlling interests of Thrive Leap Group	**361,192**	86,097
Total comprehensive (expense) income for the year attributable to non-controlling interests	**(8,453)**	268,675
Dividends paid to non-controlling interests	**(31,545)**	(30,743)
Net cash inflow from operating activities	**237,543**	345,467
Net cash (outflow) inflow from investing activities	**(819,135)**	633,754
Net cash outflow from financing activities	**(164,540)**	(59,929)
Net cash (outflow) inflow	**(746,132)**	919,292

50. PRINCIPAL SUBSIDIARIES (Continued)

Details of non-wholly owned subsidiaries that have material non-controlling interests (Continued)

Additional information to Thrive Leap Group:

Lisheng and its subsidiaries (Consolidated in Thrive Leap Group)

	At 31 December 2018 HK$'000	At 31 December 2017 HK$'000
Current assets	**2,634,611**	2,484,847
Non-current assets	**3,297,800**	1,911,857
Current liabilities	**(785,561)**	(692,721)
Non-current liabilities	**(1,554)**	(14,773)
Equity attributable to Thrive Leap	**2,642,624**	1,894,777
Non-controlling interests	**2,502,672**	1,794,433

	Year ended 31 December 2018 HK$'000	Year ended 31 December 2017 HK$'000
Revenue	**1,738,862**	1,171,176
Share of loss of associates	**(2,111)**	(1,748)
Profit for the year	**222,156**	112,527
Other comprehensive expense for the year	**(514,830)**	—
Total comprehensive (expense) income for the year	**(292,674)**	112,527
Profit for the year attribute to non-controlling interest	**108,057**	54,733
Total comprehensive (expense) income for the year attributable to non-controlling interests	**(142,356)**	54,733
Dividends paid to non-controlling interests	**(31,545)**	(30,743)
Net cash inflow from operating activities	**192,757**	206,982
Net cash (outflow) inflow from investing activities	**(75,685)**	571,853
Net cash outflow from financing activities	**(109,345)**	(73,076)
Net cash inflow	**7,727**	705,759

51. DISPOSAL OF SUBSIDIARIES

(a) On 6 August 2018, TianJin Jinhao Pharmaceutical Co., Ltd. (天津金浩醫藥有限公司) ("Jinhao Pharmaceutical"), an indirect non-wholly owned subsidiary of the Company, entered into a joint cooperation agreement with Tianjin China Merchants Tianhe Pharmaceutical Technology Development Partnership (limited partnership) (天津招商天合醫藥科技發展合夥企業（有限合夥）) ("China Merchants Tianhe") in relation to the disposal of part of the equity interest in Tianjin Institute of Pharmaceutical Research Co., Ltd. (天津藥物研究院有限公司) ("Research Institute") by Jinhao Pharmaceutical to China Merchants Tianhe through a combination of (i) China Merchants Tianhe, as investor, agreed to inject an aggregate sum of RMB1,004,000,000 by way of cash contribution into Research Institute, in which, RMB33,889,796 will be contributed as the additional registered capital of Research Institute (amounting to approximately 46.5% of the enlarged registered capital), and the balance of RMB970,110,204 will be contributed towards the capital reserve of Research Institute; and (ii) Jinhao Pharmaceutical agreed to transfer part of its shares in Research Institute (amounting to approximately 18.5% of the enlarged registered capital) to China Merchants Tianhe for a consideration of RMB399,270,000 (the "Disposal"). Upon the completion of the Disposal on 31 October 2018, Research Institute was held as to 35% and 65% respectively by Jinhao Pharmaceutical and China Merchants Tianhe and the Group recognised a Disposal gain of HK$622,323,000.

The Group has adopted equity accounting in respect of its interest on Research Institute thereafter. The net assets of Research Institute at the date of disposal were as follows:

	HK$'000
Consideration:	
Consideration received	464,267

51. DISPOSAL OF SUBSIDIARIES (Continued)

(a) (Continued)

	HK$'000
Analysis of assets and liabilities over which control was lost:	
Property, plant and equipment	711,700
Land use rights	100,050
Intangible assets	56,774
Investment properties	5,767
Interests in associates	18,181
Deferred tax assets	10,609
Equity instruments at fair value through other comprehensive income	93,864
Inventories	120,126
Trade and other receivables	156,239
Time deposits with maturity over three months	15,320
Cash and cash equivalents	246,513
Trade and other payables	(267,215)
Amount due to Jinhao Pharmaceutical	(172,807)
Contract liabilities	(34,366)
Bank borrowings	(126,410)
Defined benefit obligations	(52,395)
Deferred income	(95,155)
Current tax liabilities	(73,364)
Deferred tax liabilities	(13,573)
Net assets disposed of	699,858
Gain on disposal of a subsidiary:	
Consideration	464,267
Net assets disposed of	(699,858)
Interests in an associate	851,187
Non-controlling interests	92,997
Capital gain tax provision	(85,543)
Transaction costs	(727)
Gain on disposal	622,323
Net cash inflow arising on disposal:	
Total consideration	464,267
Less: bank balances and cash disposed of	(246,513)
	217,754

The impact of Research Institute on the Group's results and cash flows during the year was not significant.

51. DISPOSAL OF SUBSIDIARIES (Continued)

(b) On 1 December 2017, Lisheng completed the disposal of its entire equity interest in Tianjin Sega Pharmaceutical Co., Ltd ("Tianjin Sega") and the assignment of shareholder's loan to an independent third party (the "Purchaser"), for an aggregate cash consideration of RMB530,205,000 (equivalent to HK$626,720,000). Lisheng has agreed under the equity transfer agreement to reimburse the Purchaser of the operating loss in respect of Tianjin Sega for the period commenced on 1 January 2017 and ended on the date of completion. The net liabilities of Tianjin Sega at the date of disposal were as follows:

	HK$'000
Consideration:	
Assignment of shareholder's loan	626,720
Less: reimbursement to Purchaser	(3,582)
	623,138
Analysis of assets and liabilities over which control was lost:	
Property, plant and equipment	558,863
Land use rights	41,178
Inventories	8,028
Other receivables	18,254
Cash and cash equivalents	2,582
Trade and other payables	(18,362)
Amount due to Lisheng	(633,403)
Net liabilities disposed of	(22,860)
Gain on disposal of a subsidiary:	
Consideration	623,138
Net liabilities disposed of	22,860
Settlement of balance due from Tianjin Sega	(633,403)
Transaction costs	(1,415)
Gain on disposal	11,180
Net cash inflow arising on disposal:	
Total consideration	623,138
Less: bank balances and cash disposed of	(2,582)
	620,556

The impact of Tianjin Sega on the Group's results and cash flows in the prior periods was not significant.

52. PRINCIPAL ASSOCIATES

			Percentage					
			2018			2017		
Name	Principal activities	Registered capital/issued and paid up capital	Effective interest attributable to the Group %	Held by the Company %	Held by subsidiaries %	Effective interest attributable to the Group %	Held by the Company %	Held by subsidiaries %
Established and operating in the PRC								
Otis Elevator (China) Investment Company Limited ("Otis China") 奧的斯電梯（中國）投資有限公司	Manufacturing and selling of elevators and escalators	US$79,625,000	**16.55**	**–**	**20**	16.55	–	20
Liaoning Wunushan Milan Winery Co., Ltd. 遼寧五女山米蘭酒業有限公司	Brewing and processing of wine and ice wine products	RMB20,000,000	**25**	**–**	**25**	25	–	25
Benefo Financial Leasing Co., Ltd. 百利融資租賃有限公司	Operation of finance leasing business	RMB300,000,000	**40**	**–**	**40**	40	–	40
Tianjin Institute of Pharmaceutical Research Co. Ltd. ("Research Institute") 天津藥物研究院有限公司 (Note 51(a))	Investment holding and research and development of new medicine technology and new products	RMB72,881,000	**23.45**	**–**	**35**	N/A	N/A	N/A
Incorporated in the Cayman Islands, operating in and listed in Hong Kong								
Tianjin Port Development Holdings Limited ("Tianjin Port") 天津港發展控股有限公司	Provision of port services	HK$615,800,000	**21**	**–**	**21**	21	–	21

note: All English names of associates established in the PRC are included for identification purpose only.

53. PRINCIPAL JOINT VENTURES

			Percentage					
			2018			2017		
Name	Principal activities	Registered capital/issued and paid up capital	Effective interest attributable to the Group %	Held by the Company %	Held by subsidiaries %	Effective interest attributable to the Group %	Held by the Company %	Held by subsidiaries %
Established and operating in the PRC								
Tianjin Haihe Dairy Company Limited 天津海河乳業有限公司	Production and sale of dairy products	RMB200,000,000	**40**	**–**	**40**	40	–	40
Liaoning Wang Chao Wunushan Icewine Co., Ltd. ("Wunushan Icewine") 遼寧王朝五女山冰酒莊有限公司	Operation of hospitality business	RMB98,250,000	**56**	**–**	**56**	56	–	56

note: All English names of joint ventures established in the PRC are included for identification purpose only.

54. APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved by the Board of Directors on 28 March 2019.

55. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Note	2018 HK$'000	2017 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment		**114**	220
Investment properties		**114,954**	106,681
Interests in subsidiaries		**4,110,594**	4,307,273
Advances to subsidiaries		**5,990,250**	6,322,359
		10,215,912	10,736,533
Current assets			
Amount due from ultimate holding company		**390**	363
Other receivables, deposits and prepayments		**5,013**	6,084
Cash and cash equivalents		**515,017**	297,313
		520,420	303,760
Total assets		**10,736,332**	11,040,293
EQUITY			
Owners of the Company			
Share capital		**5,136,285**	5,136,285
Reserves	56	**1,730,365**	1,980,322
Total equity		**6,866,650**	7,116,607
LIABILITIES			
Non-current liabilities			
Bank borrowings		**—**	1,791,375
Amounts due to subsidiaries		**2,040,327**	2,065,221
Deferred tax liabilities		**3,286**	—
		2,043,613	3,856,596
Current liabilities			
Bank borrowings		**1,795,875**	—
Accruals		**30,194**	67,090
		1,826,069	67,090
Total liabilities		**3,869,682**	3,923,686
Total equity and liabilities		**10,736,332**	11,040,293
Net current (liabilities) assets		**(1,305,649)**	236,670
Total assets less current liabilities		**8,910,263**	10,973,203

The Company's statement of financial position was approved and authorised for issue by the Board of Directors on 28 March 2019 and are signed on its behalf by:

Wang Zhiyong
Director

Cui Di
Director

56. RESERVES OF THE COMPANY

	Share-based payments reserve HK$'000	Exchange reserve HK$'000	Retained earnings HK$'000	Total HK$'000
At 1 January 2017	26,616	869,335	682,685	1,578,636
Profit for the year	—	—	9,347	9,347
Other comprehensive income for the year	—	471,350	—	471,350
Dividends	—	—	(98,373)	(98,373)
Share-based payment expense (Note 34)	19,362	—	—	19,362
Transfer upon lapse of share options	(26,616)	—	26,616	—
At 31 December 2017	**19,362**	**1,340,685**	**620,275**	**1,980,322**
Profit for the year	**—**	**—**	**161,601**	**161,601**
Other comprehensive expense for the year	**—**	**(327,775)**	**—**	**(327,775)**
Dividends	**—**	**—**	**(83,783)**	**(83,783)**
At 31 December 2018	**19,362**	**1,012,910**	**698,093**	**1,730,365**

At 31 December 2018, the aggregate amount of reserves available for distribution to shareholders of the Company was HK$698,093,000 (2017: HK$620,275,000).

Financial Summary

	2014 HK$'000	2015 HK$'000	2016 HK$'000	2017 HK$'000	**2018** **HK$'000**
Results					
Revenue	6,813,647	6,368,910	6,110,176	4,518,489	**5,392,321**
Operating profit less finance costs	310,194	95,625	205,704	108,209	**557,227**
Share of profit (loss) of:					
Associates	703,388	690,714	516,742	433,100	**327,854**
Joint ventures	(13,345)	(11,597)	(8,715)	(8,040)	**(8,982)**
Profit before tax	1,000,237	774,742	713,731	533,269	**876,099**
Tax expense	(96,119)	(71,533)	(49,989)	(32,219)	**(86,630)**
Profit for the year from continuing operations	904,118	703,209	663,742	501,050	**789,469**
Electricity business					
Profit for the year from electricity business	—	—	—	77,441	**84,179**
Profit for the year	904,118	703,209	663,742	578,491	**873,648**
Attributable to:					
Owners of the Company	737,009	562,351	515,214	488,837	**471,931**
Non-controlling interests	167,109	140,858	148,528	89,654	**401,717**
	904,118	703,209	663,742	578,491	**873,648**
Dividends	163,155	109,208	109,208	98,373	**83,783**
Assets and liabilities					
Total assets	24,980,733	23,013,422	20,719,301	22,605,644	**23,001,454**
Total liabilities	10,878,302	9,231,222	7,341,938	7,858,454	**6,900,621**
Total equity	14,102,431	13,782,200	13,377,363	14,747,190	**16,100,833**

note: The results of electricity business prior to 2017 have not been reclassified.